BAKER & MYKENZIE

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Sydney
Taipei

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REPUBLIC OF CHINA
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10NE: 886-2-27126151 11LE: 886-2-27169250

March 8, 2002

PROCESSON

MAR 2.9 2002

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FINANCIAL

Valencia

Washington, D.C.

United States Securities & Exchange Commission Division of Corporation Finance 450 Fifth Avenue, N.W. Washington, DC 20549 U.S.A.

02015879

Attention: Special Counsel/Office of International Corporate Finance

Re:

Fubon Insurance Co., Ltd.

File No. 82-4788 82-4768

Dear Ladies and Gentlemen:

Fubon Insurance Co., Ltd., a company organized under laws of the Republic of China (the "ROC"), is listed on the Commission's List of Foreign Issuers Which Have Submitted Information Under the Exemption Relating to Certain Foreign Securities. On December 18, 2001, Fubon Insurance Co. Ltd. changed its name to Fubon Financial Holding Co., Ltd. (the "Company") as part of a series of transactions that took place pursuant to the Financial Holding Company Act of the ROC.

We are submitting this letter in order to change the name "Fubon Insurance Co. Ltd." to "Fubon Financial Holding Co., Ltd." on the Commission's List of Foreign Issuers Which Have Submitted Information Under the Exemption Relating to Certain Foreign Securities.

In addition, as the Company has not consistently furnished information to the Commission pursuant to Rule 12g3-2(b) in the last two full fiscal years, please find set forth in Annex A attached hereto a list of all information which the Company during that time period, and currently, (i) has made public or is required to make public pursuant to the laws of the ROC, its country of domicile, incorporation and organization, (ii) has filed or is required to file with the Taiwan Stock Exchange (the "TSE") or the ROC Securities and Futures Commission (the "SFC") and which was made public by the TSE or the SFC, or (iii) has distributed or is required to distribute to the Company's security holders. Copies of the information referred to in Annex A are being furnished to the Commission with this letter, in accordance with subparagraphs (1)(iii) and (4) of Rule 12g3-2(b).

DD 3/19

DARER & M. HEREIE

Securities & Exchange Commission March 8, 2002 Page Two

If you have any questions regarding this filing, or require additional information, please contact me at the above telephone number at your convenience. Please address all future inquiries and correspondence to this firm's Taipei office at the above address.

We respectfully request that this submission be duly recorded. Please acknowledge receipt of this letter and its enclosures by stamping the enclosed copy of this letter and returning it to Will Davis at Baker & McKenzie, Dallas, in the self-addressed stamped envelope accompanying this letter.

Very truly yours,

Michael S. Wong

Enclosures

The following table sets forth the information which Fubon Financial Holding Co., Ltd. (the "Company") is required to provide. Checkmarks in the columns on the right hand side of the table indicate:

- if under "A," that information is required to be made public pursuant to the laws of the Republic of China ("ROC");
- if under "B," that information is required to be filed with the Taiwan Stock Exchange (the "TSE") or the ROC Securities and Futures Commissions (the "SFC"); or
- if under "C," that information is distributed or required to be distributed to security holders.

| <u>Information</u> | A | TSE E | SFC | <u>C</u> |
|--|----|------------|-----------|----------|
| Approval by the SFC for issuance of shares or corporate bonds within 30 days after receipt of SFC approval. (Attachment (i)-1) | 為 | <u>ISE</u> | SPC | |
| Delivery of instruments representing newly issued shares or corporate bonds within 30 days after receipt of approval from the competent authority and prior to delivery of such instruments. (Attachment (i)-2) | \$ | | | |
| Shareholding of, and share transfer, by directors/supervisors/manager or shareholders holding 10% or more of total shares immediately after shareholding has been recorded on the shareholders' register, and within 15 days after the end of each month. (Attachment (i)-3) | \$ | A | \$ | |
| Creation or release of pledge on shares by directors, supervisors, managers or shareholders holding 10% or more of total shares. (Attachment (i)-3) | 杏 | 奇 | 壽 | |
| Financial forecast. (Attachment (i)-5) | 占 | 梼 | 占 | |
| Public announcement of share repurchase by Company within two days of approval of the Board of Directors of such repurchase. (Attachment (i)-8) | 杏 | | 杏 | |

repurchase of the Company's shares or of the end of the repurchase period. (Attachment (i)-8)

\$

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毒

Public announcement after repurchase of the Company's shares totaling at least two percent of the shares, or accumulative value of shares repurchased amounts of at least NT\$300 million within 2 days. Public announcement within five days of completion of repurchase of the Company's shares or of the end of the repurchase period.

(Attachment (i)-8)

Public announcement of any incident sufficient to affect stock prices and stockholders' equity within two days after the incident occurred, including, as applicable to the Company's business:

- (1) Check returned due to insufficient funds, credit refused, or other loss of creditworthiness.
- (2) Litigation and threatened litigation, administrative disciplinary action, administrative suit or injunction which has a severe impact on the Company's finances or business.
- (3) Transfer of all or a substantial portion of the Company's business; acquiring the business or property of other persons which may substantially affect the business activities of the Company; signing, amending or terminating any contract leasing the entire business to other persons.
- (4) A court judgment stating that the Company's stock may not be transferred.
- (5) A change of president, general manager, or at least one-third of directors.
- (6) A change of auditor. This requirement is not applicable if the change is due to internal changes in the accounting firm.
- (7) The signing, revising, terminating or dissolution of the following, in each case, having a severe impact on the Company's finances or business: an important contract, or strategic alliance or other joint

business plan; the successful development of trial products and start of mass production stage; the purchase of other business; the acquisition or sale of a patent, exclusive trademark rights, copyright, or other intellectual property rights.

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(8) Other major circumstances affecting the company's continued operations.

Public announcement of a merger, the purpose of such merger, benefits expected to be generated by the merger, ratio of exchanged stock and basis of calculation, expected timetable and basic information concerning the participating companies on the day the Board of Directors approved the merger. In addition, a public announcement is required of any significant incidents that were sufficient to affect the merger and that happened to any participating company after announcement of merger.

Notices of general meeting and special meeting of shareholders filed 22 days and 27 days, respectively, prior to the record date. (For Taiwan Stock Exchange) (Attachment (ii)A-1)

Notice of annual general meeting and special meeting of shareholders furnished 8 days prior to the meeting of shareholders. (For Securities and Futures Commission) (Attachment (ii)A-1)

Notice of general meeting and special meeting of shareholders distributed at least 30 days prior to the general meeting of shareholders and 15 days prior to the date of any special meeting of shareholders. (For Shareholders)
(Attachment (ii)A-1)

Notice of distribution of dividends filed at least 12 days prior to the record date. (Attachment (ii)A-2)

Notice of listing of newly issued shares on Taiwan Stock Exchange to be filed at least 3 business days prior to delivery of share certificates to shareholders. (Attachment (ii)A-3)

Notice of foreign shareholding at the initial public

| | \$ | | ! |
|---|-----------|-----------|---|
| Prospectus relating the issuance of shares. (Attachment (ii)A-8) | | 卤 | |
| Annual report furnished within 15 days after the general meeting of shareholders. (Attachment (ii)B-1) | | 杏 | 杏 |
| Annual audited financial statements for the fiscal year furnished within 4 months after the end of each fiscal year. (Attachment (ii)B-2) | | 奇 | |
| Semi-annual audited financial statements to be furnished within 2 months after the end of the first six months of each fiscal year. (Attachment (ii)B-3) | | 杏 | |
| Quarterly financial statements to be furnished within one month after the end of the first and third quarters of each fiscal year. (Attachment (ii)B-4) | | \$ | |
| Monthly operation statements furnished before the tenth day of each month following the period covered by the annual or the semi-financial statement. (Attachment (ii)B-5) | | 奇 | |
| Report on use of proceeds from issuance of new shares furnished within 10 days after the end of relevant fiscal quarters. (Attachment (ii)B-7) | | 费 | |
| Minutes of general meeting and special meeting of shareholders distributed within 20 days after the general meeting of shareholders. (Attachment (iii)-3) | | | 寿 |

Attachment (i)-1

[English Translation]

SECURITIES AND FUTURES COMMISSION, MINISTRY OF FINANCE LETTER

Sender:

Chu Chao-ling, Chairman

Securities and Future Commission, MOF

Address:

(106) 85, Hsin Sheng S. Rd., Sec. 1, Taipei

Fax Number: (02) 87734134

Serial No: 110041

Recipient:

Fubon Insurance Co., Ltd.

CC:

Foreign Exchange Department, Central Bank of China

Taiwan Stock Exchange Co.

ROC Over-the-Counter Securities Exchange

Securities & Futures Institute Chinese Securities Association

Lui Ke-yi and Tao Hong-wen, public accountants

Taiwan Union & Co.

Grand Cathay Securities Corp.

Priority:

Urgent

Confidentiality/Declassifying Condition:

Date:

November 8, 2000

Docket No.:

(89th) Tai-Tsai-Cheng-(1)-Tze No. 87115

Attachment:

N/L

Subject: We have approved your application regarding issuing 315,000,000 common shares by cash capital increase, participating in the issuance of 31,500,000 units of overseas depositary certificates, totaling US\$275,058,000.

Explanation:

The above conclusion was reached with referenced to your Application for Participating 1. in Issuing Overseas Depositary Certificates dated October 12, 2000, the Letter from the Foreign Exchange Depart, Central Bank of China (89th-Tai-Yang-Wai-Wu-Tze No. 040039482) dated October 16, 2000, the Letter from the Ministry of Finance (Tai-Tsai-Pao-Tze No. 0890709870) dated October 23, 2000, the letter from Grand Cathay Securities Corp. (no docket number provided) dated October 31, 2000 supplying

- additional explanation, and the Letter from Baker & McKenzie (89th-Kou-Chi-Tze No. 1103) dated November 2, 2000.
- 2. The Commission must be immediately notified should there be any change to the issuing plan of overseas depositary certificates prior to official disclosure.
- 3. The following matters have to be disclosed to the public with two days after the depositary contract becomes effective, and copies of the newspapers where such notifications appear shall be submitted to the Commission for reference.
 - (1) Total dollar amount of the overseas depositary certificates to be issued, the unit price thereof and total number of units.
 - (2) The marketable securities represented by the overseas depositary certificates, the number of shares thereof and the price per share.
 - (3) The place where issuance and transaction will take place
 - (4) The plan of how the funds will be utilized and the anticipated effects
 - (5) Major impacts on the shareholders' equity
- 4. Please provide the Commission with the following documentation within 10 days after the overseas depositary certificates are issued:
 - (1) The prospectus prepared in accordance with the security laws and regulations of the country where the certificates are offered
 - (2) A duplicate copy of the depositary contract
 - (3) A duplicate copy of the custodian contract
 - (4) A sample of the overseas depositary certificate
 - (5) A report written in Chinese prepared by R.O.C. lawyers in which such lawyers shall prove no material discrepancy between the issuing rules of the overseas depositary certificates and the version approved by the Commission.
- 5. All the information subject to disclosure to the depositary institution in accordance with the depositary contract shall be supplied to the Commission within 3 days after such information is provided.
- 6. After the overseas depositary certificates are issued, information such as the total number of outstanding units of the overseas depositary certificates and the marketable securities they represent as of the end of the previous month shall be supplied to the Commission and the Foreign Exchange Department, Central Bank of China for

declaration purposes by the 10th day of every month. Please use the forms appeared on Attachment 10 of the Guidelines for the Offering and Issuance of Overseas Securities by Issuers as the templates.

- 7. When the overseas Chinese and foreigners purchasing the overseas depositary certificates issued by your company request to convert the certificates into the stock they represent, they shall register the transferred shareholders' account as the "account for the converted overseas depositary certificates of ** [Name of the bank authorized for the deposit] authorized by ** [name of the overseas Chinese or foreigner making the authorization])".
- 8. Regarding the currency exchange of the funds converted into the NT dollars, conversion of certificates, re-issuance of the converted certificates, and cash dividends to be allocated, please handle the relevant matters in accordance with the Letter by Central Bank of China (84th-Tai-Yang-Wai-Wu-Tze No. 2586) and the attachments thereof, dated December 26, 1995.
- 9. The execution of the plan to operate the increase of cash capital shall be made in accordance with Articles 8-1 and 8-2 of the Guidelines for the Offering and Issuance of Overseas Securities by Issuers, promulgated by the Commission by the Notification 89th-Tai-Tsai-Cheng-(1)-Tze No. 00397 dated February 9, 2000. Before the completion of the fund operation plan, the balance of the unused fund and the purposed thereof has to be truthfully disclosed in the "Quarterly Report of Public Offering Company's Cash Capital Increase" or the "Quarterly Report of Corporate Bond Issuance Plan and Operation of Funds". In case there is a major change to the cash capital increase plan, relevant issues need to be handled in accordance with the 4th paragraph of the same clause.
- 10. If the actual offering price for the cash capital increase is lower than the closing price on the price fixing day, the average closing price calculated by choosing from one of the business days 10, 20 and 30 days preceding the price fixing day, deducting stock dividends to be declared, if any, shall be the 90% of the calculation basis. Such calculation should be made in accordance with the Notification by the Commission (98th-Tai-Tsai-Cheng-(1)-Tze No. 00398) dated February 9, 2000.

SECURITIES AND FUTURES COMMISSION, MINISTRY OF FINANCE LETTER

Sender:

Chu Chao-ling, Chairman

Securities and Future Commission, MOF

Address:

(106) 85, Hsin Sheng S. Rd., Sec. 1, Taipei

Fax Number: (02) 87734134

Recipient:

Taiwan Stock Exchange Co.

CC:

Ministry of Finance

ROC Over-the-Counter Securities Exchange Taiwan Securities Central Depository Co., Ltd.

Priority:

Urgent

Confidentiality/Declassifying Condition:

Date:

November 30, 2001

Docket No.:

(90th) Tai-Tsai-Cheng-(1)-Tze No. 173833

Attachment:

Subject:

The Commission has approved to file your report with regard to approving the application from Fubon Insurance Co., Ltd. for issuing the converted stock of Fubon Financial Holding Co., Ltd. according to Article 29 of the Financial Holding Company Law, and the suspension of trading the marketable security of Fubon Insurance Co., Ltd. and Fubon Commercial Bank Co., Ltd. starting December 7, 2001 until the fixed date (December 19, 2001) for stock conversion when trading of these securities will cease.

Explanation:

This letter is prepared in reply of your letter Tai-Cheng-(90th)-Shang-Tze No. 031831 dated December 29, 2001.

Attachment (i)-2

PUBLIC NOTICE

[ENGLISH TRANSLATION]

Listing of Fubon Financial Holding Co., Ltd., and

Termination of Stock Trading of Fubon Insurance Co., Ltd. and Fubon Commercial Bank, and Over-the-Counter Securities Exchange of Fubon Securities Co., Ltd.

Date:

December 17, 2001

Document No.:

Fu-Pao-Hui-Fa-Tze No. 253

The Securities and Futures Commission, Ministry of Finance and Taiwan Stock Exchange Co. have approved the application filed by Fubon Insurance Co., Ltd., Fubon Commercial Bank and Fubon Securities Co., Ltd. regarding conversion of stock into the listed securities of Fubon Financial Holding Co., Ltd. by issuing the approval letters (90th)-Tai-Tsai-Cheng-(1)-Tze No. 173833 dated November 30, 2001 and Tai-Cheng-(90th)-Shang-Tze No. 103156 dated December 12, 2001, in that order. The following is the information about the listing of Fubon Financial Holding Co., Ltd. and the termination of stock trading of Fubon Insurance Co., Ltd. and Fubon Commercial Bank and over-the-counter securities exchange of Fubon Securities Co., Ltd., such as the effective date and the agent dealing with stock affairs:

- Listing date of Fubon Financial Holding Co., Ltd.:
 December 19, 2001 (The record date of stock conversion; Fubon Insurance Co., Ltd. and Fubon Commercial Bank shall terminate their stock trading on the same date, so shall Fubon Securities Co., Ltd. terminate its over-the-counter securities exchange.
- Number of shares of listed securities:
 5,464,985,224 common shares, with a par value of NT\$10 each, totaling NT\$54,649,852,240.00
- 3. Listing Code: 2881
- 4. Institution for attesting share certificates:

Trust Department of United World Chinese Bank

- 5. The securities issued by the company have the rights and obligations identical to other securities.
- 6. Agent dealing with stock affairs:

Stock Affairs Department of Fubon Securities Co., Ltd.

Address:

7/F, 138, Min Sheng E. Rd., Sec. 3, Taipei

Telephone:

(02) 27171033

Fax:

(02) 25149557

Source: Page 36, Commercial Times (Nov. 20, 2000)

PUBLIC NOTICE OF FUBON INSURANCE CO., LTD.

Issuance of New Shares and Participation of the Overseas Depository Receipts through Cash Capital Increase

Date:

November 18, 2000

Document No.: (89th) Fu-Pao-Hui-Fa-Tze No. 257

Subject:

Matters relevant to the issuance of new shares and participation of overseas depository receipts through cash capital increase by Fubon Insurance Co., Ltd.

Explanation:

The relevant matters are handled in accordance with Article 17 of the Guidelines for the Offering and Issuance of Overseas Securities by Issuers and the Securities and Futures Commission, MOTC Letter (89th) Tai-Tsai-Cheng-(1)-Tze No. 87115 dated November 8, 2000.

Announcement:

- Total dollar amount, unit price and total number of units of the overseas depository receipts to be issued:
 - (1) Total dollar amount of the overseas depository receipts: US\$275,058,000.00
 - (2) Unit price: US\$8.732
 - (3) Total number of units: 31,500,000 units
- The marketable securities represented by the overseas depository receipts and number of shares 2. and per-share price thereof:
 - (1) Each unit of the overseas depository receipts represents 10 shares of the common stock issued by Fubon Insurance Co., Ltd.
 - (2) The marketable securities represented by the overseas Depositary Receipts: 315,000,000 shares of common stock issued by Fubon Insurance Co., Ltd.
 - (3) Price per share: Around NT\$28.15 calculated by the exchange rate of one US dollar against 23.237 NT dollars.
- Venues where the issue and transaction will take place: 3. The receipts will be issued in territories outside of the Republic of China. However, these receipts will not be listed at any stock exchange.
- 4. Purpose of designating the purchaser, total number of units purchased by such party and dollar

amount thereof, and the relation between the designated purchaser and the issuer:

- (1) Purpose of designating the purchaser: Fubon Insurance Co., Ltd. has formed a strategic alliance with Traveler Insurance Group) in the areas of insurance business.
- (2) Total number of units purchased by the designated purchaser: 31,121,650 units of the overseas depository receipts, representing 311,216,500 common shares issued by Fubon Insurance Co., Ltd.
- (3) Total dollar amount purchased by the designated purchaser: US\$271,754,248.00
- (4) Relation between the designated purchaser and issuer:

 Fubon Insurance Co., Ltd. has formed a strategic alliance with Traveler Insurance Group in the areas of insurance business.
- 5. The management plan for the funds formed by the offering and the anticipated effects:
 - (1) Total amount of funds necessary for the plan: US\$275,058,000
 - (2) Source of funds: Issuance of 315,000,000 common shares through cash capital increase for participation of the issuance of the overseas depository receipts. Total amount of the issued shares: US\$275,058,000
 - (3) Fund management plan:
 Reinvestment of domestic and foreign insurance companies (US\$236,526,000);
 Construction payment (US\$19,363,000); and
 Purchase of computer equipment (US\$19,169,000)
 - (4) Anticipated effects:

The annual premium income from reinvestment of domestic and foreign insurance companies is expected to reach around NT\$10,942 million;

The construction payment is expected to help increase the number of business offices set up by Fubon Insurance Co., Ltd.; and

Purchase of computer equipment is expected to improve the company's business capability and reduce operation cost.

- 6. Major impacts on the shareholders' equity:
 - (1) The undertaking expenses for issuance of common shares and overseas depository receipts through cash capital increase approximately accounts for 1% of the total funds formed by the offering. The undertaking expenses and other relevant expenses will be borne by Fubon Insurance Co., Ltd. and deducted from the premium of share capital so as to keep the impact of profit and loss for the current term at the lowest level.
 - (2) The original shareholders' equity will reduce by 15.18% after the issuance of new shares through cash capital increase. However, the plan will greatly contribute to improvement of the company's performance when the future reinvestment of domestic and foreign insurance companies begins to create profits. The execution of construction payment and purchase of computer equipment will also help increase our competitiveness.

Attachment (i)-3

Shareholding of Directors/Supervisors and Major Shareholders (10% or above)

Fubon Financial Holding Co. Ltd.

(As of January 2002)

| Status | Name | Shareholding as of the date of | Current | Shares nledoed | Shares pledged shares / | Shares held by spouse, children or nominees | by spouse, nominees | , children or |
|----------------------------|----------------------------------|--------------------------------|--------------|----------------|-------------------------|---|------------------------|-------------------------------|
| | | appointment | shareholding | | total shares | Total shares | Pledged shares | Pledged shar /total share: |
| Director | Tsai, Ming- Chong | 63,082,248 | 161,999,139 | 0 | %00'0 | 25,978,116 | 0 | 0.00 |
| Executive Director | Shih, Tsang- ming | 501,274 | 604,138 | 0 | %00'0 | 9,847 | 0 | 0.00 |
| Director | Ming Dong ShihYeh Co. Ltd. | 333,702,546 | 546,931,884 | 0 | 0.00% | 0 | 0 | 0.00 |
| Representative of Director | ROBERT PRICE | 0 | 0 | | 0.00% | 0 | 0 | 0.00 |
| Director | Ming Dong ShihYeh Co. Ltd. | 0 | | 0 | 0.00% | 0 | 0 | 0.00 |
| Representative of Director | Gon, Tian- shing | 0 | 0 | 0 | %00.0 | 0 | 0 | 0.00 |
| Director | Ming Dong | 0 | 0 | 0 | 0.00% | 0 | 0 | 0.00 |

| | ShihYeh Co. Ltd. | | | | | | | |
|------------------------------|---|--|--|---|--|------------------------------|----------------------------|------|
| Representative of Director | Tsai, Ming- Shing | 0 | 141,041,903 | 0 | 0.00% | 25,471,659 | 0 | 0.00 |
| Director | Lu, Chien- hong | 1,726,858 | 2,647,129 | 250,000 | 9.44% | 0 | 0 | 0.00 |
| Director | Chen, Tsang- huang | 254,386 | 324,564 | 0 | 0.00% | 0 | 0 | 0.00 |
| Supervisor | Tsai, Yu-may | 1,360,161 | 1,360,161 | 0 | 0.00% | 0 | 0 | 0.00 |
| Supervisor | Ming Dong ShihYeh Co. Ltd. | | 0 | 0 | 0.00% | 0 | 0 | 0.00 |
| Representative of supervisor | Chen, Rong- hua | 0 | 407,027 | 0 | 0.00% | 126,215 | 0 | 0.00 |
| Manager | Li, Ming- Chow | 0 | 11,145 | 0 | %00.0 | 0 | 0 | 0.00 |
| Total s Total s Total s | Total shares held by directors Total shares held by supervisors Total shares held by directors an | Total shares held by directors 712,506,854 Total pledged shares by directors 250,000 Total shares held by supervisors 713,867,015 Total pledged shares by directors and supervisors 250,000 | 712,506,854 548,292,045 sors 713,867,015 | Total pledged Total pledged Total pledged | Total pledged shares by directors Total pledged shares by supervisors Total pledged shares by directors an | s sors s and superviso | 250,000 0 rs 250,000 | |

Attachment (i)-5

Forecasted Balance Sheet
From January 1, 2002 to December 31, 2002
(The data for year 2001 is here for comparison reason)

| | | | | | | | (| - | 1t. NITO |
|-------|---------------------------------|---------------|----|------------------------------|-----|------|---|-------------------------------------|--------------------|
| | | | | | | | | _ | Onnt: N 1 \$ 1,000 |
| | | Forecast | | Historical Data | ıta | | Liabilities and Shareholders' Rights and | December 31, 2002 December 31, 2001 | ocember 31, 2001 |
| | | Dec. 31, 2002 | 5) | Dec. 31, 2001 (Unaudited) | = - | | Benefits | | |
| | Assets | Amount | % | Amount | % | | | Amount % | Amount % |
| 11-12 | Current Assets | | | | | | Liabilities: | | • |
| 1100 | Cash and cash equivalents | \$ 2,031 | • | 3,467 | | 2121 | Floating liabilities | \$ 5,500 - \$ | • |
| Ξ | Short-term investment | 4,949,619 | 4 | 469,031 | , | 2143 | Long term loans | 17,500,000 13 | , |
| 1280 | Other Current Assets | , | | 2 | | 2280 | Other liabilities | 3,301 | 3,301 - |
| | | | | | | | Subtotal of Liabilities | 17,508,801 13 | 3,301 |
| | Subtotal of Current Assets | 4,951,650 | 4 | 472,500 | | | | | |
| 1421 | 1421 Long-term stock investment | 134,157,658 | 96 | 111,633,438 | 001 | | Shareholders' Rights and Benefits: | | |
| | | | | | | 3111 | Stock capital of common shares | 56,039,801 40 | 54,469,852 49 |
| | | | | | | 3211 | Capital Surplus | 54,041,084 39 | 54,031,810 48 |
| 15xx | 15xx Fixed Assets | 2,000 | ٠ | • | | | Retained Earnings | | |
| | | | | | | | Legal Reserve | 1,966,734 | 1,710,517 1 |
| | | | | | | | Special Reserve | 717,520 | 1,917,520 1 |
| | | | | | | | Unassigned retained earnings | 11,789,167 8 | 2,644,737 3 |
| | | | | | | | Unrealized long-term equity investment loss | (344,562) - | (344,562) - |
| | | | | | | | Accumulated Translation adjustments | (300,000) | (300,000) |
| | | | | | | | Treasury shares | (2,307,237) (1) | (2,207,237) (2) |
| | | | | | | | Sub-total | 121,602,507 87 | 112,102,637 100 |
| | | | | | | | | | |
| | | | | | | | | | |

Total of Assets

Responsible Person: [Chop]

Total of Liabilities and Sharcholders' Rights and Benefits \$ 139,111,308 100 \$112,105,938 100 and Benefits
(Read carefully the explanation on back of the Balance Sheet.)

Managers: [Chop]

Accountant: [Chop]

\$ 139,111,308 100 \$ 112,105,938 100

Unaudited

Profit and Loss Statement

From January 1, 2002 to December 31, 2002 (The data for year 2001 is here for comparison reason)

| | | | | Unit: NT\$ | 1,000 |
|------|-----------------|---------------|--------------|-------------------|-------------|
| | | Forecast | | Historical I | <u>Data</u> |
| | | Dec. 31, 2002 | 2 | Dec. 31, 2001 (Un | audited) |
| Code | <u>Item</u> | <u>Amount</u> | <u>%</u> | | |
| | Investment | | | | |
| 4532 | Income | \$11,041,779 | 100 | 8,953,374 | 100 |
| 4609 | Other operating | _ | _ | _ | _ |
| 7009 | income | | | | |
| | Subtotal for | 11,041,779 | | | |
| | Income | 11,041,777 | 100 | 8,953,374 | 100 |
| 5800 | Operating | 200,000 | 2 | 30,850 | _ |
| 5000 | Expenses | 200,000 | | 20,020 | |
| | Subtotal for | 200,000 | 2 | 30,850 | _ |
| | Expenses | 200,000 | 2 | 30,030 | |
| 6300 | Net Income | 10,841,779 | 98 | 8,922,524 | 100 |
| 0500 | before Tax | 10,011,777 | | 0,522,52 | 100 |
| 6400 | Income Tax | - | - | - | _ |
| 0100 | Cost | | | | |
| | Net Income for | | | | |
| 6900 | the Current | \$10,841,779 | 98 | 8,922,524 | 100 |
| | Period | | | | |
| 7000 | Earning per | \$2.17 | | <u>1.83</u> | |
| 7000 | share | <u> </u> | | <u>1.02</u> | |

(Read carefully the explanation on back of the Balance Sheet.)

Responsible Person: [Chop] Manager: [Chop] Accountant: [Chop]

Attachment (i)-8 English Summary of Repurchases of the Company Shares

| Repurchased Shares Not Deleted or Transferred (Share) | 10,000,000 | 32,195,000 | 33,975,000 | 41,392,000 | 46,654,000 | 66,654,000 | 86,654,000 |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|----------------------------------|-----------------------------|-----------------------------|
| Deleted or Transferred Shares (Share) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Accumulated Repurchased Shares (Share) | 10,000,000 | 32,195,000 | 33,975,000 | 41,392,000 | 46,654,000 | 66,654,000 | 86,654,000 |
| Status | Completed | Partial completed | Partial completed | Partial completed | Partial completed | Completed | Completed |
| Repurchased Shares/ Total Shares (%) | 0.57 | 1.26 | 0.09 | 0.36 | 0.25 | 96.0 | 0.96 |
| Repurchase Sum (NTS) | 193,377,280 | 436,145,537 | 44,379,187 | 212,314,978 | 141,620,086 | 551,640,410 | 627,770,478 |
| Repurchasing Amount of Shares (Share) | 10,000,000 | 22,195,000 | 1,780,000 | 7,417,000 | 5,262,000 | 20,000,000 | 20,000,000 |
| Repurchasing | To Transfer to Employees | To Transfer to Employees | To Transfer to Employees |
| Repurchasing Repurchasing Period (mm/dd/yyyy) | 09/25/2000~ 10/24/2000 | 10/25/2000~ 12/24/2000 | 12/30/2000~ 02/28/2001 | $04/18/2001\sim 06/17/2001$ | $07/24/2001_{\sim}$ $09/23/2001$ | 09/24/2001~ 11/06/2001 | 11/7/2001~ 12/7/2001 |
| Type of No. Shares to Be Repurchased | Соштоп | Соштоп | Соштоп | Common | Common | Соттоп | Common |
| No. | - | 2 | 3 | 4 | 3 | 9 | 7 |

Attachment (ii)A-1

Fubon Insurance Co., Ltd.

Notice of 2001 Regular Shareholder's Meeting

[English Translation]

- 1. The company is scheduled to call the 2001 regular shareholder's meeting at 9:00 sharp on May 22 (Tuesday), 2001, at No.19, lane 39, Pashi First Street, Tamsui Town, Taipei County (Auditorium of Fubon Education Center). The principal items to be discussed at the meeting are as follows:
- A. The business report in 2000 and the business plan in 2001.
- B. Supervisor's review report.
- C. The report of matters relating to the company's Asset Acquisition and Disposition Procedure (transactions between the company and actual interested parties).
- D. The report with respect to the execution of the repurchase of treasury stocks.
- E. The acknowledgement of the statement of the final settlement of account in 2000.
- F. The acknowledgement of the regulation about the transfer of repurchased shares to the employees.
- G. The discussion over the 2000 profits distribution plan.
- H. The release on the prohibition of business strife of directors.
- I. The release on the prohibition of business strife of newly elected directors.
- J. The amendment of the charter.
- K. The reelection of directors and supervisors.
- L. Other proposals and extempore motions.
- 2. The company's 2001 profits distribution plan has been proposed at the 30th meeting of the directors of the 15th term as follows:

Declaration and payment of cash dividends by NT 1 per share. The record date of ex dividend will be appointed and dividends will be declared and paid according to the shareholding proportion of shareholders in the stock ledger following the proposal is adopted by the regular shareholder meeting and its authorization to the board of directors afterwards.

3. Mr. Robert Price (representative of Dao-yin Industry Co., Ltd.) be released of his post

as Director of the Company.

4. Stocks are, pursuant to Article 165 of the Company Law, prohibited to transfer in the

period from Apr. 23, 2001 to May. 23, 2001.

5. The company has attached one signatory card and one proxy respectively. If you

decide to present yourself in person, please affix yours original seal to the signatory card

and report yourself on the very day of the meeting (there is no need to sent it back if you

present yourself personally.) Provided, however, that you attend by proxy, in a bid to send

you your signatory card of presence, please set your original seal, fill out the name and

address of your agent, and sign you name, on the proxy, and, mail it to the department of

service agency of Fubon All Securities Co., Ltd (7F, No.138, Sec.3, Ming-shen E. Rd),

the service agent of the company, five days prior to the meeting.

6. If you are a shareholder with a new account of group insurance, please collect your

card of seal and copies of both front and reverse sides of your ID, and send them back to

the department of service agency of Fubon Securities, for the reason to protect you

interest.

7. The company hereby inform you as above.

Very truly your,

Board of Directors, Fubon Insurance Co., Ltd.

Fubon Financial Holding Co., Ltd.

Notice of 2002 Special Shareholder Meeting

- 1. The company is scheduled to call the 2002 special shareholder's meeting at 9:00 sharp on Feb 6 (Wednesday), 2002, at G2, No.108, Sec.1, Tun-hua S. Rd (The Fubon International Conference Center). The principal items to be discussed at the meeting are as follows:
- A. The report with respect to the execution of the repurchase of treasury stocks.
- B. The report of the amendment relating to the company's Asset Acquisition and Disposition Procedure.
- C. The report with respect to the amendment of the company's Transactions of Derivative Financial Goods Procedure.
- D. The acknowledgement of the regulation about the transfer of repurchased shares to the employees.
- E. The acknowledgement of the stipulation of enforcement rules with regard to Endorsement and Guarantee.
- F. The amendment of the charter.
- G. The amendment of the rules of Shareholder Meeting Procedure.
- H. The amendment of the rules of the Election for Directors and Supervisors.
- I. The election of directors and supervisors of the second term.
- J. Other proposals and extempore motions.
- 2. Stocks are, pursuant to Article 165 of the Company Law, prohibited to transfer in the period from Jan 8 2002 to Feb 6, 2002.
- 3.The company has attached one signatory card and one proxy respectively. If you decide to present in person, please affix yours original seal to the signatory card and report yourself on the very day of the meeting (there is no need to sent it back if you present yourself personally.) Provided, however, that you attend by proxy, in a bid to send you your signatory card of presence, please set your original seal, fill out the name and address of your agent, and sign you name, on the proxy, and, mail it to the department of service agency of Fubon All Securities Co., Ltd (7F, No.138, Sec.3, Ming-shen E. Rd), the service agent of our company, five days prior to the meeting.

- 4. If you are a shareholder with a new account of group insurance, please collect your card of seal and copies of both front and reverse sides of your ID, and send them back to the department of service agency of Fubon Securities, for the reason to protect you interest.
- 5. The company hereby inform you as above.

Very truly yours,

Board of Directors, Fubon Financial Holding Co., Ltd.

Fubon Insurance Co. Ltd. Notice for Regular Shareholders Meeting 2000

March 17, 2000 Fu-Bao-Mi-Fa Tze No. 023

- 1. Fubon will hold its Shareholders Meeting 2000 at 19, Lane 39, Pashi First Street, Pashi Li, Tamsui, Taipei County (Auditorium of Fubon Education Center) on May 15, 2000 (Monday) 9:00 A.M. The main items to be discussed at the Meeting are:
 - (1) The company's business report of 1999 and business plan of 2000. 2. Supervisor's review report and accountant's audit report. 3. Matter relating to the company's Asset Acquisition and Disposition Procedure (transactions between the company and actual interested parties, revision of the Asset Acquisition and Disposition Procedure). 4. Acknowledge the company's final statements of 1999. 5. Discuss the company's profit distribution plan of 1999. 6. Discuss whether the company shall capitalize its profit and capital reserve for issuing new stock. 7. Discuss the amendment to articles of incorporation. 8. Other proposals and Extempore motions.
 - (2) The company's 16th meeting of the directors of the 15th term and the fifth meeting of the supervisors of the 28th term proposed the following profit distribution plan for 1999: cash dividend of NT\$1.13 per stock and stock dividend of NT\$0.2 per stock (which include NT\$ 0.05 from profits and NT\$0.15 from capital reserve). Upon approval granted in an ordinary shareholders meeting and by the competent authority, the board of directors will be authorized to prescribe a record date of exclusion on which the new shares will be distributed based on the shareholding specified in the shareholder roster as at such date.
 - (3) Pursuant to Article 165 of the Company Law, ownership of stock shall not be transferred from April 16, 2000 to May 15, 2000.
 - (4) Enclosed herewith is a copy of the Shareholder Attendance Card and Certificate of Entrustment. For shareholders who will attend the Meeting personally, please affix the shareholder's personal seal in record upon the Attendance Card and sign in during the of Meeting (Those who will attend personally need not mail the Card). If the shareholder would like to appoint an agent to attend on his behalf, please affix the

shareholder's personal seal in record and provide the name, address, and signature of the agent on the Certificate of Entrustment, then send it to Fubon Securities Co. Ltd. Share Agency Department (B1 138 Mingshen East Road, Taipei City). The Certificate must arrive at least 5 days before the Meeting, so that the Attendance card may be mailed.

- (5) If you are a new shareholder, please send a personal seal card and copies of your personal ID (both sides) to Fubon Securities Co. Ltd. Share Agency Department, so that your rights and benefits may be secured.
- (6) We hereby notify you of the above matters.

Yours truly

Board of Directors
Fubon Insurance Co. Ltd.

Fubon Insurance Co. Ltd.

Notice for the First Special Shareholders Meeting 2000

July 25, 2000 Fu-Bao-Mi-Fa Tze No. 075

- 1. Fubon will hold its First Special Shareholders Meeting 2000 at 19, Lane 39, Pashi First Street, Pashi Li, Tamsui, Taipei County (Auditorium of Fubon Education Center) on September 6, 2000 (Wednesday) 9:00 A.M. The main items to be discussed at the Meeting are:
 - (1) Discuss the proposal for an increase in capital in cash. 2. Amend selected provisions of the articles of incorporation. 3. Other proposals and extempore motions.
 - (2) The company intends to increase capital in cash. We will issue classified stocks up to 315,000,000 shares to issue American Depositary Receipts (ADR). Pursuant to Article 267 para. 1 of the Company Law, 10% percent of the stock issued shall be withheld for purchase by staff, while the rest 90% shall be issued as ADR pursuant to Article 28 bis 1 of the Securities and Exchange Law.
 - (3) Pursuant to Article 165 of the Company Law, ownership of stock shall not be transferred from August 23, 2000 to September 6, 2000.
 - (4) Enclosed herewith is a copy of the Shareholder Attendance Card and Certificate of Entrustment. For shareholders who will attend the Meeting personally, please affix the shareholder's personal seal in record upon the Attendance Card and sign in during the of Meeting (Those who will attend personally need not mail the Card). If the shareholder would like to appoint an agent to attend on his behalf, please affix the shareholder's personal seal in record and provide the name, address, and signature of the agent on the Certificate of Entrustment, then send it to Fubon Securities Co. Ltd. Share Agency Department (B1 138 Mingshen East Road, Taipei City). The Certificate must arrive at least 5 days before the Meeting, so that the Attendance card may be mailed.
 - (5) If you are a new shareholder, please send a personal seal card and copies of your personal ID (both sides) to Fubon Securities Co. Ltd. Share Agency Department, so that your rights and benefits may be secured.

(6) We hereby notify you of the above matters.

Yours truly

Board of Directors

Fubon Insurance Co. Ltd.

Attachment (ii) A-2 Distribution of Dividend Fubon Insurance Co. Ltd.

| | | | In NT Dollars |
|--|--------------------|---------------|----------------|
| Year | 2001 | 2000 | 1999 |
| Distributable Earning as of the end of the previous year | NT\$ 3,292,838,055 | 4,291,086,363 | 11,473,004,351 |
| Legal Reserve | 261,715,173 | 260,159,092 | 134,164,593 |
| Special Reserve | 903,197,252 | 1,014,322,500 | |
| Cash Dividend | 2,040,801,471 | 2,241,118,660 | 783607924 |
| Share Dividends | | 86,196,870 | 156721580 |
| Employee's Bonus | 4,555,169 | 13,602,920 | |
| Retained Earning | 82,568,990 | 675,686,321 | 1,689,495,441 |
| | | | |

Attachment (ii)A-3

[English Translation]

TAIWAN STOCK EXCHANGE CO. **LETTER**

Sender:

Chu Fu-Chun, General Manager

Taiwan Stock Exchange, Co.

Address:

5/F 17, Po Ai Rd., Taipei

Fax Number: (02) 23485232

Recipient:

Fubon Insurance Co., Ltd.

Fubon Commercial Bank Co., Ltd

CC:

Security and Futures Commission, Ministry of Finance

Finance Department, Taiwan Stock Exchange Co.

Priority:

Urgent

Confidentiality/Declassifying Condition:

Date:

December 12, 2001

Docket No.:

Tai-Cheng-(90th)-Shang-Tze No. 103156

Attachment:

See below

Subject: We hereby approve Fubon Financial Holding Company, having been approved to issue stock certificates, to start the trading its stock in the market provided by the Taiwan Stock Exchange Co. on December 19, 2001, when transaction of the marketable securities of Fubon Insurance Co., Ltd. and Fubon Commercial Bank Co., Ltd. will be ceased.

Explanation:

- The letter is prepared in reply to your application for stock of a listing company to be 1. converted into the stock of a financial holding company dated November 28, 2001.
- Your two companies will stop offering the marketable securities, starting December 19, 2. The marketable security issuance contract entered by you and the Taiwan Stock Exchange Co. shall become invalid on the same day.
- 3. On the same day when Fubon Financial Holding Company acquires the corporate status

(i.e. the fixed date for stock conversion), five duplicate copies of the issuance contract shall be served to Taiwan Stock Exchange Co. by Fubon Financial Holding Company. We will reply to Fubon Financial Holding Company after reporting to the competent authorities and the approval is granted.

- 4. Enclosed please find the list containing the issuance expenses to be paid by Fubon Financial Holding Company.
- 5. The trading of the above new stock shall be disclosed to the public in accordance with Article 43 of the operation regulations of Taiwan Stock Exchange Co. Please provide us with two copies of the newspaper on which such notification appears. The prospectus shall contain information such as the legality of the policy-making process regarding the decision of conversion ratio, opinions of certified public accountants proving the process is reasonable and the ratio of the converted stock of the companies involving in the conversion.

Attachment (ii) A-6 Foreign Share Holding

| Foreign Share Holding | | July 4, 2001 | | | July 7, 2000 | In N I Dollars |
|---------------------------------|---------|---------------------|------|---------|--------------------|----------------|
| Type of Foreign Shareholders | Numbers | Amount | % | Numbers | Amount | % |
| Foreign Financial institute | 0 | . 0 | 0 | 0 | 0 | 0 |
| Foreign Corporate | 132 | 5,602,976,350 27.00 | | 30 | 1,374,899,830 7.98 | 7.98 |
| Foreign Investment Trust Fund | 1 | 10,000 | 0.00 | 1 | 246,170 | 00.00 |
| Foreign Natural Person | . 6 | 332,600 | 0.00 | 6 | 226,090 | 00.00 |

Monthly Report on Outstanding Global Deposit Receipt

| Europe, Asia, America and deposited shares Europe, Asia, America and deposited shares Exchange Exchang | Name | November 2001 Fubon Insurance Co. Demository | November 2001 | Citi Dont | Octo Fubon Insurance | October 2001 | C:4: D1. | S Fubon Insurance | September | - |
|--|-----------------------------|--|-------------------------|--------------|--|-------------------------|--------------|--|----------------------|------------------|
| America and London Securities America and Aposited Securities Common America and America and Securities Common America and America and Securities America and America and Securities America and America and Exchange Exchange Exchange Exchange Exchange Exchange Exchange Bondon Securities Exchange Exchange <th< td=""><td></td><td>Ltd. Europe, Asia,</td><td>Type of</td><td></td><td>Co. Ltd. Europe, Asia,</td><td>Depository Type of</td><td>Citi Bank</td><td>Co. Ltd. Europe, Asia,</td><td>Depository</td><td>Cıtı Bank</td></th<> | | Ltd. Europe, Asia, | Type of | | Co. Ltd. Europe, Asia, | Depository Type of | Citi Bank | Co. Ltd. Europe, Asia, | Depository | Cıtı Bank |
| 8,000,000 8,000,000 8,000,000 3,000,000 8,000,000 3,000,000 3,200, | iDR listing | America and London Securities Exchange | deposited securities | Common | America and London Securities Exchange | deposited securities | Common | America and London Securities Exchange | deposited securities | Common shares |
| 8,000,000 8,000,000 8,000,000 8,000,000 3,200,000 3,200,000 3,200,000 3,200,000 1,054,515 10,545,152 1,054,515 1,054,515 1,054,515 1,054,515 1,054,515 1,054,515 2,009,007 2,009,007 2,009,007 2,009,007 31,500,000 315,000,000 315,000,000 31,500,000 35,955,423 359,554,249 35,955,423 359,554,249 Not applicable Not applicable Not applicable Not applicable 43,955,423 439,554,249 43,955,429 43,955,429 43,955,423 439,554,249 43,955,429 43,955,429 43,955,423 439,554,249 43,955,429 43,955,429 43,475,249 43,955,423 439,554,249 43,955,429 59,475 43,475,509 43,513,649 43,955,429 66,000 660,000 660,000 148,000 1,480,000 0 0 0 0 0 0 0 0 0 </td <td>ems</td> <td>0</td> <td></td> <td></td> <td>29,000</td> <td></td> <td></td> <td>LAVIIdiigo</td> <td></td> <td></td> | ems | 0 | | | 29,000 | | | LAVIIdiigo | | |
| 3,200,000 3,200,000 3,200,000 3,200,000 1,054,515 10,545,152 1,054,515 1,054,512 1,054,512 1,054,512 1,054,512 1,054,512 1,054,512 1,054,512 1,054,512 1,054,512 1,054,512 1,054,512 1,054,512 1,054,512 1,054,512 1,054,512 200,909 200,909 2,009,097 200,909 2,009,097 200,909 2,009,097 200,909 2,009,097 200,909 2,009,097 200,909 2,009,097 200,909 2,009,097 200,909 2,009,097 200,909 2,009,097 200,909 2,009,097 200,909 31,500,00 31 | nce amount A | 8,000,000 | | 80,000,000 | 8,000,000 | | 80,000,000 | 8,000,000 | | 80,000,000 |
| 1,054,515 1,054,515 1,054,515 1,054,515 1,054,515 1,054,515 1,054,515 1,054,515 1,054,515 1,054,515 1,054,515 200,009 31,500,000 43,955,423 43,955,424 43,955,42 43,955,4 | ssuance | 3,200,000 | | 32,000,000 | 3,200,000 | | 32,000,000 | 3,200,000 | | 32,000,000 |
| 200,908 2,009,097 200,909 2,009,097 200,900 31,500,000 315,000,000 31,500,000 31,500,000 31,500,000 35,955,423 359,554,249 35,955,429 35,955,42 Not applicable Not applicable Not applicable Not applicable Not applicable 43,955,423 439,554,249 439,554,249 439,554,249 439,554,249 43,955,423 439,554,249 439,554,249 439,554,249 439,554,249 43,475,249 434,752,509 43,513,649 435,136,509 42,759,21 66,000 660,000 148,000 1,480,000 804,50 0 0 0 0 0 Not applicable Not applicable Not applicable Not applicable 43,481,774 43,475,249 43,475,250 43,513,64 | | 1,054,515 | | 10,545,152 | 1,054,515 | | 10,545,152 | 1,054,515 | | 10,545,152 |
| 31,500,000 315,000,000 31,500,000 31,500,000 31,500,000 35,955,423 35,955,423 359,554,249 35,955,423 35,955,429 35,955,429 Not applicable Not applicable Not applicable Not applicable Not applicable Not applicable 43,955,423 439,554,249 43,955,423 439,554,249 43,955,42 43,955,423 439,554,249 43,955,423 43,955,429 43,955,42 43,475,249 43,475,269 43,513,649 43,955,42 43,955,42 66,000 660,000 148,000 1,480,000 804,50 66,000 0 0 0 0 Not applicable Not applicable Not applicable Not applicable Not applicable 43,481,774 43,475,249 43,475,2509 43,513,64 | | 200,908 | | 2,009,097 | 200,908 | | 2,009,097 | 200,908 | | 2,009,097 |
| 35,955,423 35,955,423 35,955,4249 35,955,4249 35,955,4249 35,955,4249 35,955,4249 Not applicable A3,4752,509 43,4752,509 43,4752,509 43,4752,509 43,4752,509 43,4752,509 43,4752,509 43,4752,509 43,4752,509 43,513,64 | | 31,500,000 | | 315,000,000 | 31,500,000 | 3 | 15,000,000 | 31,500,000 | | 315,000,000 |
| Not applicable Not app | | 35,955,423 | | 359,554,249 | 35,955,423 | 3 | 59,554,249 | 35,955,423 | | 359,554,249 |
| 43,955,423 439,554,249 43,955,423 439,554,249 43,955,42 43,475,249 434,752,509 43,513,649 435,136,509 42,759,21 59,475 594,750 186,400 1,864,000 50,06 66,000 660,000 148,000 1,480,000 804,50 Not applicable Not applicable Not applicable Not applicable Not applicable 43,481,774 434,817,759 43,475,249 434,752,509 43,513,64 | Ε . | Not applicable | | t applicable | Not applicable | No | t applicable | Not applicable | | Not applicable |
| 43,475,249 434,752,509 43,513,649 435,136,509 42,759,21 59,475 594,750 186,400 1,864,000 50,06 66,000 660,000 148,000 1,480,000 804,50 Not applicable Not applicable Not applicable Not applicable Not applicable 43,481,774 434,817,759 43,475,249 434,752,509 43,513,64 | of the date of | 43,955,423 | 7 | 139,554,249 | 43,955,423 | 4 | 39,554,249 | 43,955,423 | | 439,554,249 |
| 59,475 594,750 186,400 1,864,000 50,06 66,000 660,000 148,000 1,480,000 804,50 Not applicable Not applicable Not applicable Not applicable Not applicable 43,481,774 434,817,759 43,475,249 434,752,509 43,513,64 | of the end of | 43,475,249 | 7 | 434,752,509 | 43,513,649 | 4 | 35,136,509 | 42,759,210 | | 427,592,119 |
| 66,000 660,000 148,000 1,480,000 804,50 Not applicable | oy GDR | 59,475 | | 594,750 | 186,400 | | 1,864,000 | 50,061 | | 500,610 |
| 0 0 0 0 Not applicable Not applicable Not applicable Not applicable 43,481,774 434,817,759 43,475,249 434,752,509 43,513,64 | / Depository | 000'99 | | 000,099 | 148,000 | | 1,480,000 | 804,500 | | 8,045,000 |
| Not applicable Not applicable Not applicable 43,481,774 434,817,759 43,475,249 434,752,509 | ssuance H | 0 | | 0 | 0 | | 0 | 0 | | 0 |
| 43,481,774 434,817,759 43,475,249 434,752,509 | from bond I | Not applicable | | t applicable | Not applicable | No | t applicable | Not applicable | | Not applicable |
| | of the end of =E-F+G+H+I | 43,481,774 | 7 | 434,817,759 | 43,475,249 | 4 | 34,752,509 | 43,513,649 | | 435,136,509 |

| | Augu | August 2001 | | Jul | July 2001 | | <u> </u> | June 2001 | |
|---|--|------------------------------|----------------|---|------------------------------|----------------|--|------------------------------|----------------|
| Name | Fubon Insurance Co. Ltd. | Depository | Citi Bank | Fubon Insurance Co. Ltd. | Depository | Citi Bank | Fubon Insurance Co. Ltd. | Depository | Citi Bank |
| Place of GDR listing | Europe, Asia, America and London Securities Exchange | Type of deposited securities | Common | Europe, Asia, America and London Securities Exchange | Type of deposited securities | Common | Europe, Asia, America and London Securities Exchange | Type of deposited securities | Common |
| Items | | | | | | | | | |
| Initial issuance amount A | 8,000,000 | | 80,000,000 | 8,000,000 | | 80,000,000 | 8,000,000 | | 80,000,000 |
| Follow-up issuance | 3,200,000 | | 32,000,000 | 3,200,000 | | 32,000,000 | 3,200,000 | | 32,000,000 |
| amount B | 1,054,515 | | 10,545,152 | 1,054,515 | | 10,54,152 | 1,054,515 | | 10,545,152 |
| | 200,908 | | 2,009,097 | 200,908 | | 2,009,097 | 200,908 | | 2,009,097 |
| | 31,500,000 | | 315,000,000 | 31,500,000 | 3 | 315,000,000 | 31,500,000 | | 315,000,000 |
| | 35,955,423 | | 359,554,249 | 35,955,423 | 3 | 359,554,249 | 35,955,423 | | 359,554,249 |
| Conversion from company bond C | Not applicable | | Not applicable | Not applicable | No | Not applicable | Not applicable | | Not applicable |
| Balance as of the date of this report D=A+B+C | 43,955,423 | | 439,554,249 | 43,955,423 | 4 | 439,554,249 | 43,955,423 | | 439,554,249 |
| | | | | | | | | | |
| Balance as of the end of previous month E | 42,125,410 | | 421,254,119 | 41,877,479 | 4 | 418,774,809 | 42,239,726 | | 422,397,279 |
| Redeemed by GDR holders F | 62,700 | | 627,000 | 69 | | 069 | 362,247 | | 3,622,470 |
| Reissued by Depository G | 005'969 | | 6,965,000 | 248,000 | | 2,480,000 | 0 | | 0 |
| Follow-up issuance H | 0 | | 0 | 0 | | 0 | 0 | | 0 |
| Conversion from convertible bond I | Not applicable | | Not applicable | Not applicable | No | Not applicable | Not applicable | | Not applicable |
| Balance as of the end of the month J=E-F+G+H+I | 42,759,210 | | 427,592,119 | 42,125,410 | 4 | 421,254,119 | 41,877,479 | | 418,774,809 |

| | May | May 2001 | | Api | April 2001 | | W | March 2001 | |
|---|--|------------------------------|---------------|--|------------------------------|------------------|--|------------------------------|----------------|
| Name | Fubon Insurance Co. Depository Ltd. | Depository | Citi Bank | Fubon Insurance Co. Ltd. | Depository | Citi Bank | Fubon Insurance Co. Ltd. | Depository | Citi Bank |
| Place of GDR listing | Europe, Asia, America and London Securities Exchange | Type of deposited securities | Common | Europe, Asia, America and London Securities Exchange | Type of deposited securities | Common shares | Europe, Asia, America and London Securities Exchange | Type of deposited securities | Common |
| Items | | | | | | | 0 | | |
| Initial issuance amount A | 8,000,000 | | 80,000,000 | 8,000,000 | | 80,000,000 | 8,000,000 | | 80,000,000 |
| Follow-up issuance | 3,200,000 | | 32,000,000 | 3,200,000 | | 32,000,000 | 3,200,000 | | 32,000,000 |
| amount B | 1,054,515 | | 10,545,152 | 1,054,515 | | 10,545,152 | 1,054,515 | أدور بنساء المساوات المراجعة | 10,545,152 |
| | 200,908 | | 2,009,097 | 200,908 | | 2,009,097 | 200,908 | | 2,009,097 |
| | 31,500,000 | | 315,000,000 | 31,500,000 | 3 | 315,000,000 | 31,500,000 | | 315,000,000 |
| | 35,955,423 | | 359,554,249 | 35,955,423 | 3 | 359,554,249 | 35,955,423 | | 359,554,249 |
| Conversion from company bond C | Not applicable | N _c | ot applicable | Not applicable | N _o | Not applicable | Not applicable | | Not applicable |
| Balance as of the date of this report D=A+B+C | 43,955,423 | | 439,554,249 | 43,955,423 | 4 | 439,554,249 | 43,955,423 | | 439,554,249 |
| | | | | | | | | | |
| Balance as of the end of previous month E | 42,649,026 | 7 | 426,490,279 | 42,648,562 | 4 | 426,485,639 | 42,371,212 | | 423,712,139 |
| Redeemed by GDR holders F | 480,200 | | 4,802,000 | 222,136 | di nagaran | 2,221,360 | 50,050 | | 500,500 |
| Reissued by Depository G | 70,900 | | 709,000 | 222,600 | | 2,226,000 | 327,400 | | 3,274,000 |
| Follow-up issuance H | 0 | | 0 | 0 | | 0 | 0 | | 0 |
| Conversion from convertible bond I | Not applicable | ž | ot applicable | Not applicable | οN | Not applicable | Not applicable | | Not applicable |
| Balance as of the end of the month J=E-F+G+H+I | 42,239,726 | 7 | 422,397,279 | 42,649,026 | 4 | 426,490,279 | 42,648,562 | | 426,485,639 |

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| | Febru | February 2001 | | Janu | January 2001 | | Dec | December 2000 | |
|---|---|------------------------------|------------------|--|------------------------------|----------------|---|------------------------------|----------------|
| Name | Fubon Insurance Co. Ltd. | Depository | Citi Bank | Fubon Insurance Co. Ltd. | Depository | Citi Bank | Fubon Insurance Co. Ltd. | Depository | Citi Bank |
| Place of GDR listing | Europe, Asia, America and London Securities Exchange | Type of deposited securities | Common shares | Europe, Asia, America and London Securities Exchange | Type of deposited securities | Common | Europe, Asia, America and London Securities Exchange | Type of deposited securities | Common |
| Items | | | | | | | 0 | | |
| Initial issuance amount A | 8,000,000 | | 80,000,000 | 8,000,000 | | 80,000,000 | 8,000,000 | | 80,000,000 |
| Follow-up issuance | 3,200,000 | | 32,000,000 | 3,200,000 | | 32,000,000 | 3,200,000 | | 32,000,000 |
| amount B | 1,054,515 | | 10,545,152 | 1,054,515 | | 10,545,152 | 1,054,515 | | 10,545,152 |
| | 200,908 | | 2,009,097 | 200,908 | | 2,009,097 | 200,908 | | 2,009,097 |
| | 31,500,000 | | 315,000,000 | 31,500,000 | | 315,000,000 | 31,500,000 | | 315,000,000 |
| | 35,955,423 | | 359,554,249 | 35,955,423 | | 359,554,249 | 35,955,423 | | 359,554,249 |
| Conversion from company bond C | Not applicable | Z | ot applicable | Not applicable | | Not applicable | Not applicable | | Not applicable |
| Balance as of the date of this report D=A+B+C | 43,955,423 | | 439,554,249 | 43,955,423 | 7 | 439,554,249 | 43,955,423 | | 439,554,249 |
| | | | | | | | | | |
| Balance as of the end of previous month E | 41,072,682 | | 410,726,839 | 39,634,182 | | 396,341,839 | 8,018,982 | | 80,189,839 |
| Redeemed by GDR holders F | 109,070 | | 1,090,700 | 175,000 | | 1,750,000 | 124,900 | | 1,249,000 |
| Reissued by Depository G | 1,407,600 | | 14,076,000 | 1,613,500 | | 16,135,000 | 240,100 | | 2,401,000 |
| Follow-up issuance H | 0 | | 0 | 0 | | 0 | 31,500,000 | | 315,000,000 |
| Conversion from convertible bond I | Not applicable | Z | ot applicable | Not applicable | | Not applicable | Not applicable | | Not applicable |
| Balance as of the end of the month J=E-F+G+H+I | 42,371,212 | | 423,712,139 | 41,072,682 | 7 | 410,726,839 | 39,634,182 | | 396,341,839 |

| | Nove | November 2000 | | Octo | October 2000 | | Sep | September 2000 | |
|---|--|---|----------------|--|------------------------------|----------------|--|------------------------------|----------------|
| Name | Fubon Insurance Co. Ltd. | Depository | Citi Bank | Fubon Insurance Co. Ltd. | Depository | Citi Bank | Fubon Insurance Co. Ltd. | Depository | Citi Bank |
| Place of GDR listing | Europe, Asia, America and London Securities Exchange | Type of deposited securities | Common | Europe, Asia, America and London Securities Exchange | Type of deposited securities | Common | Europe, Asia, America and London Securities Exchange | Type of deposited securities | Common |
| Items | | | | | | | 9 | | |
| Initial issuance amount A | 8,000,000 | | 80,000,000 | 8,000,000 | | 80,000,000 | 8,000,000 | | 80,000,000 |
| Follow-up issuance amount | 3,200,000 | | 32,000,000 | 3,200,000 | | 32,000,000 | 3,200,000 | | 32,000,000 |
| В | 1,054,515 | | 10,545,152 | 1,054,515 | | 10,545,152 | 1,054,515 | | 10,545,152 |
| | 200,908 | *************************************** | 2,009,097 | 200,908 | - | 2,009,097 | 200,908 | | 2,009,097 |
| | 4,455,423 | | 44,554,249 | 4,455,423 | | 44.554.249 | 4,455,423 | | 44 554 249 |
| Conversion from company bond C | Not applicable | Z | ot applicable | Not applicable | N N | Not applicable | Not applicable | | Not applicable |
| Balance as of the date of this report D=A+B+C | 12,455,423 | | 124,554,249 | 12,455,423 | | 124,554,249 | 12,455,423 | | 124,554,249 |
| | | | | | | | | | |
| Balance as of the end of previous month E | 8,381,004 | | 83,810,059 | 8,007,804 | | 80,078,059 | 7,999,404 | | 79,994,042 |
| Redeemed by GDR holders F | 710,622 | | 7,106,220 | 168,800 | | 1,688,000 | 215,508 | | 2,155,080 |
| Reissued by Depository G | 348,600 | | 3,486,000 | 542,000 | | 5,420,000 | 23,000 | | 230,000 |
| Follow-up issuance H | 0 | | 0 | 0 | | 0 | 200,908 | | 2.009.097 |
| Conversion from convertible bond I | Not applicable | 2 | lot applicable | Not applicable | Š | Not applicable | Not applicable | | Not applicable |
| Balance as of the end of the month J=E-F+G+H+I | 8,018,982 | | 80,189,839 | 8,381,004 | | 83,810,059 | 8,007,804 | | 80,078,059 |
| | | | | | | | | | |
| Request for redeem | 0 | | 0 | 0 | | 0 | 0 | | 0 |
| Resell of redeemed GDR | Not | Not applicable | | Not a | Not applicable | | N | Not applicable | |
| Balance of redeemed GDR | Not | Not applicable | | Not a | Not applicable | | No | Not applicable | |
| | | | | | | | | | |

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| | Aug | August 2000 | | Inf | July 2000 | | | June 2000 | |
|---|--|------------------------------|---------------|--|------------------------------|----------------|--|------------------------------|----------------|
| Name | Fubon Insurance Co. Ltd. | Depository | Citi Bank | Fubon Insurance Co. Ltd. | Depository | Citi Bank | Fubon Insurance Co. Ltd. | Depository | Citi Bank |
| Place of GDR listing | Europe, Asia, America and London Securities Exchange | Type of deposited securities | Common | Europe, Asia, America and London Securities Exchange | Type of deposited securities | Common | Europe, Asia, America and London Securities Exchange | Type of deposited securities | Common |
| Items | | | | | | | 0 | | |
| Initial issuance amount A | 8,000,000 | | 80,000,000 | 8,000,000 | | 80,000,000 | 8,000,000 | 5 | 80,000,000 |
| Follow-up issuance amount | | | 32,000,000 | 3,200,000 | | 32,000,000 | 3,200,000 | | 32,000,000 |
| В | 1,054,515 | | 10,545,152 | 1,054,515 | | 10,545,152 | 1,054,515 | | 10,545,152 |
| | | | | | | | | | |
| | 4,254,515 | | 42,545,152 | 4,254,515 | | 42,545,152 | 4,254,515 | | 42,545,152 |
| Conversion from company bond C | Not applicable | Z | ot applicable | Not applicable | N | Not applicable | Not applicable | | Not applicable |
| Balance as of the date of this report D=A+B+C | 12,254,515 | | 122,545,152 | 12,254,515 | | 122,545,152 | 12,254,515 | | 122,545,152 |
| | | | | | | | | | |
| Balance as of the end of previous month E | 9,456,686 | | 94,566,862 | 9,968,786 | | 99,687,862 | 10,295,060 | | 102,950,602 |
| Redeemed by GDR holders F | 1,604,282 | | 16,042,820 | 627,100 | | 6,271,000 | 331,274 | | 3,312,740 |
| Reissued by Depository G | 147,000 | | 1,470,000 | 115,000 | | 1,150,000 | 5,000 | | 50,000 |
| Follow-up issuance H | 0 | | 0 | 0 | | 0 | 0 | - Participal de | 0 |
| Conversion from convertible bond I | Not applicable | Z | ot applicable | Not applicable | X | Not applicable | Not applicable | | Not applicable |
| Balance as of the end of the month J=E-F+G+H+I | 7,999,404 | | 79,994,042 | 9,456,686 | | 94,566,862 | 9,968,786 | | 99,687,862 |
| | | | | | | | | | |
| Request for redeem | 0 | | 0 | 0 | | 0 | 0 | | 0 |
| Resell of redeemed GDR | Not | Not applicable | | Not a | Not applicable | | N | Not applicable | |
| Balance of redeemed GDR | Not | Not applicable | | Not a | Not applicable | | No | Not applicable | |

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| | W | May 2000 | | Ani | April 2000 | | | March 2000 | |
|---|---|------------------------------|----------------|--|------------------------------|----------------|--|------------------------------|----------------|
| Name | Fubon Insurance Co. Ltd. | Depository | Citi Bank | Fubon Insurance Co. Ltd. | Depository | Citi Bank | Fubon Insurance Co. Ltd. | Depository | Citi Bank |
| Place of GDR listing | Europe, Asia, America and London Securities Exchange | Type of deposited securities | Common | Europe, Asia, America and London Securities Exchange | Type of deposited securities | Common | Europe, Asia, America and London Securities Exchange | Type of deposited securities | Common |
| Items | | | | 0 | | | 2 | | |
| Initial issuance amount A | 8,000,000 | | 80,000,000 | 8,000,000 | | 80,000,000 | 8.000.000 | | 80.000.000 |
| Follow-up issuance amount | 3,200,000 | | 32,000,000 | 3,200,000 | | 32,000,000 | 3,200,000 | | 32,000,000 |
| <u>B</u> | 1,054,515 | | 10,545,152 | 1,054,515 | | 10,545,152 | 1,054,515 | | 10,545,152 |
| | | | | | | | | | |
| | 4,254,515 | | 42,545,152 | 4,254,515 | | 42,545,152 | 4,254,515 | | 42,545,152 |
| Conversion from company bond C | Not applicable | | Not applicable | Not applicable | No | Not applicable | Not applicable | | Not applicable |
| Balance as of the date of this report D=A+B+C | 12,254,515 | | 122,545,152 | 12,254,515 | | 122,545,152 | 12,254,515 | - | 122,545,152 |
| | | | | | | | | | |
| Balance as of the end of previous month E | 095'988'6 | | 98,865,602 | 9,529,012 | | 95,290,122 | 10,043,292 | | 100,432,922 |
| Redeemed by GDR holders F | 20,700 | | 207,000 | 100,052 | | 1,000,520 | 524,280 | | 5,242,800 |
| Reissued by Depository G | 429,200 | | 4,292,000 | 457,600 | | 4,576,000 | 10,000 | | 100,000 |
| Follow-up issuance H | 0 | | 0 | 0 | | 0 | 0 | | 0 |
| Conversion from convertible bond I | Not applicable | | Not applicable | Not applicable | No | Not applicable | Not applicable | | Not applicable |
| Balance as of the end of the month J=E-F+G+H+I | 10,295,060 | | 102,950,602 | 9,886,560 | | 98,865,602 | 9,529,012 | | 95,290,122 |
| D | | | | | | | | | |
| Kequest for redeem | 0 | | 0 | 0 | | 0 | 0 | | 0 |
| Resell of redeemed GDR | Not a | Not applicable | | Not a | Not applicable | | No | Not applicable | |
| Balance of redeemed GDR | Not a | Not applicable | | Not a | Not applicable | | No | Not applicable | |

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| | Febru | February 2000 | | Janu | January 2000 | | Dec | December 1999 | |
|---|---|------------------------------|----------------|--|------------------------------|----------------|--|------------------------------|----------------|
| Name | Fubon Insurance Co. Ltd. | Depository | Citi Bank | Fubon Insurance Co. Ltd. | Depository | Citi Bank | Fubon Insurance Co. Ltd. | Depository | Citi Bank |
| Place of GDR listing | Europe, Asia, America and London Securities Exchange | Type of deposited securities | Common | Europe, Asia, America and London Securities Exchange | Type of deposited securities | Common | Europe, Asia, America and London Securities Exchange | Type of deposited securities | Common |
| Items | | | | | | | O | | |
| Initial issuance amount A | 8,000,000 | | 80,000,000 | 8,000,000 | | 80,000,000 | 8,000,000 | | 80.000.000 |
| Follow-up issuance amount | 3,200,000 | | 32,000,000 | 3,200,000 | | 32,000,000 | 3,200,000 | | 32,000,000 |
| B | 1,054,515 | | 10,545,152 | 1,054,515 | | 10,545,152 | 1,054,515 | | 10,545,152 |
| | | | | | | | | | |
| | 4,254,515 | | 42,545,152 | 4,254,515 | | 42,545,152 | 4,254,515 | | 42,545,152 |
| Conversion from company bond C | Not applicable | Z | ot applicable | Not applicable | No | Not applicable | Not applicable | | Not applicable |
| Balance as of the date of this report D=A+B+C | 12,254,515 | | 122,545,152 | 12,254,515 | | 122,545,152 | 12,254,515 | | 122,545,152 |
| | | | | | | | | | |
| Balance as of the end of previous month | 10,077,712 | | 100,777,122 | 10,953,880 | | 109,538,802 | 11,904,432 | | 119,044,322 |
| Redeemed by GDR holders F | 45,520 | | 455,200 | 849,168 | | 8,491,680 | 1,100,552 | | 11,005,520 |
| Reissued by Depository G | 11,100 | | 111,000 | 169,000 | | 1,690,000 | 250,000 | | 2,500,000 |
| Follow-up issuance H | 0 | | 0 | 0 | | 0 | 0 | | 0 |
| Conversion from convertible bond I | Not applicable | | Not applicable | Not applicable | No | Not applicable | Not applicable | | Not applicable |
| Balance as of the end of the month J=E-F+G+H+I | 10,043,292 | | 100,432,922 | 10,077,712 | | 100,777,122 | 10,953,880 | | 109,538,802 |
| | | | | | | | | | |
| Request for redeem | 0 | | 0 | 196,000 | ! | 1,960,000 | 100,000 | | 100,000 |
| Resell of redeemed GDR | Not | Not applicable | | Not a | Not applicable | | No | Not applicable | |
| Balance of redeemed GDR | Not a | Not applicable | | Not a | Not applicable | | No | Not applicable | |

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Attachment (ii)A-8

FUBON FINANCIAL HOLDING CO., LTD.

Prospectus

(English Summary)

(For Listing on Taiwan Securities Exchange)

- 1. Name of Company: Fubon Financial Holding Co., Ltd.
- 2. Issuing Additional Stock by Capital Increase:
 - 1) Type: Name-bearing common stock with par value of NT\$10.
 - 2) Number of shares: Total number of shares 5,464,985,224 shares.
 - 3) Dollar amount: Total dollar amount NT\$54,649,852,240.
 - 4) Issuing conditions: Issuance in full amount.
 - 5) Ratio of public undertaking: Not applicable.
 - 6) Method of undertaking: Not applicable.
- 3. The operational plan for current capital increase and projected performance: Not applicable.
- 4. The issuer, its responsible person and the parties having caused their names signed or their chops affixed on the Prospectus shall be legally liable for any falsehood or concealment regarding the contents of the Prospectus.
- 5. The issuer and the certifying accountant shall be legally liable for any falsehood regarding the contents of the financial statements.
- 6. Investors should note that this company applies for listing as a financial holding company and its business is limited to share holding.

Published by Fubon Financial Holding Co., Ltd.

December 12, 2001

CONFIDENTIAL INFORMATION MEMORANDUM

FUBON INSURANCE CO., LTD.

31,500,000 GLOBAL DEPOSITARY SHARES (each representing ten (10) Common Shares)

This Information Memorandum (the "Memorandum") relates to an offering (the "Offering") by Fubon Insurance Co., Ltd. (the "Company"), a Taiwanese property and casualty insurance company, of Global Depositary Shares ("GDSs"), each representing ten (10) of the Company's common shares, par value NT\$10 per share (the "Common Shares"). The GDSs offered hereby will be offered outside of Taiwan, consistent with local law in jurisdictions in which offers are made. See "The Offering."

PLEASE REFER TO "NOTICES TO INVESTORS" FOR IMPORTANT INFORMATION REGARDING THE OFFERING AND RESTRICTIONS ON THE MANNER IN WHICH THE OFFERING WILL BE MADE.

Offering Price: U.S.\$8.73 (NT\$270.60) per GDS

Aggregate Offering Price: U.S.\$275.06 Million (NT\$8,523.90 Million)

On or prior to the closing of this Offering, the Company will have deposited the Common Shares (or a certificate of payment representing such Common Shares) underlying the GDSs with Citibank, Taipei, as custodian for Citibank N.A., the depositary. Delivery of global depositary receipts ("GDRs") representing GDSs in definitive certificated form, against the payment therefor in immediately available, U.S. dollar-denominated funds, is expected to occur on or about November 16, 2000. See also "Description of Global Depositary Shares."

SELLING AGENT: SALOMON SMITH BARNEY

The date of this Information Memorandum is November 13, 2000

NOTICES TO INVESTORS

The GDSs offered hereby have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), or any state securities laws, for offer or sale as part of their distribution and, subject to certain exemptions from registration, the GDSs may not be offered or sold in the United States. The GDSs offered hereby will be "restricted securities," within the meaning assigned to such term by the Securities Act and the rules promulgated thereunder. The sale, transfer or other disposition of any GDSs purchased pursuant to this Memorandum is substantially restricted by applicable U.S. federal and state securities laws. The GDSs offered hereby have not been recommended by any U.S. federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this Memorandum. Any representation to the contrary is a criminal offense in the United States.

A copy of this Memorandum has not been registered with the Registrar of Companies in Hong Kong and, accordingly, except as mentioned below, no copy of this Memorandum may be issued, circulated or distributed in Hong Kong. However, a numbered copy of this Memorandum may be issued to a limited number of prospective applicants, whose ordinary business it is to buy or sell shares or debentures in Hong Kong in a manner which does not constitute an issue, circulation or distribution in Hong Kong of a prospectus for the purposes of the Hong Kong Companies Ordinance (Cap. 32 of the Laws of Hong Kong). An application for GDSs is not invited from any person in Hong Kong other than a person to whom a numbered copy of this Memorandum has been issued and, if made, will not be accepted. No person to whom a numbered copy of this Memorandum is issued may issue, circulate or distribute this Memorandum in Hong Kong or make or give a copy of this Memorandum to any other person, other than their legal, financial, tax or other appropriate advisers who are subject to a duty of confidentiality to such person.

This Memorandum is strictly for the confidential use of only those prospective investors considering an investment in the GDSs. In making an investment decision, prospective investors must rely on their own examination of the business, operations and prospects of the Company and the terms of this offering, including the merits and risks involved. Prospective purchasers should be aware that they may be required to bear the financial risks of an investment in GDSs for an indefinite period of time and should be able to afford a total loss of their investment. Prospective investors should not construe the contents of this Memorandum or any other similar communication as investment, legal or tax advice. This Memorandum, the other documents delivered herewith and any such other materials, as well as the nature of an investment in the GDSs offered hereby, should be reviewed by each prospective investor with such investor's investment, tax, legal, accounting and other advisors. Prospective investors are urged to request any additional information they may consider necessary in making an informed investment decision.

The distribution of this Memorandum and the offering and sale of GDSs in certain jurisdictions may be restricted by law. The Company requires persons into whose possession this Memorandum comes to inform themselves about and to observe any such restrictions. This Memorandum constitutes an offer only to the offeree to whom this Memorandum is initially provided and does not constitute an offer

to sell or a solicitation of an offer to purchase from anyone in any country, state or other jurisdiction in which such an offer or solicitation is not authorized and does not constitute an offer to sell or a solicitation of an offer to purchase from anyone to whom such an offer is not authorized or otherwise would be unlawful. Neither the Company nor Salomon Smith Barney, as the Selling Agent, is making any representation to an offeree or a purchaser of the GDSs regarding the legality of an investment therein by such offeree or purchaser under appropriate securities or similar laws.

This Memorandum contains summary information about the Company and the offer and sale of GDSs being made hereby, but does not provide a complete description of the business, management and financial position of the Company or the Offering. Investors are advised and expected to carefully review this Memorandum prior to applying to purchase GDSs. This Memorandum is based on information furnished by the Company. The Company and Salomon Smith Barney, as the Selling Agent, expressly disclaim any and all liability for the contents of or omissions from this Memorandum and for any other written or oral communication transmitted or made available to prospective purchasers of the GDSs. No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this Memorandum; if made, such representation must not be relied upon. You must not rely on any unauthorized information or representatives. This Memorandum is an offer to sell only the GDSs offered hereby, and only under circumstances and in jurisdictions where it is lawful to do so. This Memorandum and the documents delivered or made available to prospective investors qualify and supersede any and all information, written or oral, relating to the Company previously disclosed to them, including any information memorandum dated prior to the date hereof.

The Company reserves the right, in its sole discretion and for any reason whatsoever, to modify, amend and/or withdraw all or a portion of the offering and/or to accept or reject in whole or in part any prospective investment in the GDSs offered hereby or to allot to any prospective investor less than the number of the GDSs such investor desires to purchase. The Company shall have no liability whatsoever to any offeree and/or purchaser in the event that any of the foregoing shall occur.

The disclosure of any of the data contained herein or supplied in connection herewith or the use hereof for any other purpose, except with the written consent of the Company, is prohibited. The information contained herein must be maintained as confidential and not disclosed to any person or used for any purpose other than evaluating the merits of the investment described herein unless and until the Company has consented otherwise in writing. This Memorandum may not be reproduced, in whole or in part. This Memorandum will be returned on request if the recipient does not purchase the GDSs offered hereby.

This Memorandum contains summaries, believed to be accurate, of certain terms of certain documents, but reference is made to the actual documents, copies of which will be made available by the Company upon request, for the complete information contained therein. All such summaries are qualified in their entirety by this reference.

The information contained in this Memorandum is current only as of its date. The delivery of this Memorandum at any time does not imply that the information herein is correct as of any time subsequent to its date of issue and the Company disclaims any obligation to advise any recipient of this Memorandum of any changes in such information after the date hereof.

The Offering can be withdrawn at any time before the closing and is specifically made subject to the terms described in this Memorandum.

The exchange rate of U.S.\$1.00=NT\$30.99, which is the intra-day exchange rate on July 19, 2000, as reported by Bloomberg, is used in this Memorandum for purposes of calculating the per GDS and aggregate offering price. On November 6, 2000, the official New Taiwan Dollar/U.S. Dollar exchange rate reported by the Federal Reserve Bank of New York was U.S.\$1.00=NT\$32.15. Unless otherwise specified, this exchange rate is used in this Memorandum for purposes of providing certain financial information by reference to such currencies.

TABLE OF CONTENTS

| | Page |
|---|------|
| Information Memorandum Summary | 1 |
| The Offering | 3 |
| Market Price Information | 5 |
| The Company | 6 |
| Description Of Share Capital | 8 |
| Description Of Global Depositary Shares | 13 |
| The Securities Markets Of The Republic Of China | 27 |
| Republic Of China Taxation | 32 |
| Placement | 34 |
| Independent Accountants | 34 |
| Index To Financial Statements F | 7-1 |

INFORMATION MEMORANDUM SUMMARY

The following is qualified in its entirety by the more detailed information and financial statements, including the notes thereto, appearing elsewhere in this Memorandum.

Introduction

The Company was incorporated on April 17, 1961 under the laws of the Republic of China, with the purpose of engaging in the business of property and casualty insurance. The Company believes that it is the leading property and casualty insurer in Taiwan. The Company's Common Shares were listed for trading on the Taiwan Stock Exchange in 1993. The Company presently underwrites a variety of insurance lines, including fire insurance, motor insurance, marine cargo insurance, marine hull and fishing vessel insurance, aviation insurance, engineering insurance, and a variety of lines of liability insurance. The Company's recently established Safety & Loss Control Department provides customers with loss prevention advisory services, and its company-wide claims operational system received ISO 9002 certification in 1999. For the year ended December 31, 1999 and the year ended December 31, 1998, the Company's net earned premiums were NT\$8,184 million and NT\$6,940 million, underwriting profits were NT\$787 million and NT\$654 million, the net income of the Company was NT \$2,602 million and NT\$1,342 million, the total assets of the Company were NT\$61,119 million and NT\$53,535 million, and the stockholders' equity was NT\$31,969 million and NT\$29,875 million, respectively. For the six months ended June 30, 2000, the total net income of the Company was NT\$1,940 million.

The Company is a full-service property and casualty insurer, and is part of the Fubon Group (the "Fubon Group"), which is a comprehensive financial services conglomerate in Taiwan. The Fubon Group consists of multiple publicly and privately held companies, and offers Taiwan's most complete line of financial products and services, such as investment consulting, securities, securities financing, investment trust, venture capital and futures investment. The Fubon Group also provides banking, life insurance, investment and construction-related services, thus responding to the diverse needs of the business community.

Principal Strengths

The Fubon Group has grown through its integrated marketing strategies, including the provision of complementary, interdisciplinary financial services, and the sharing of professional talent and other internal resources among the companies within the Fubon Group. As part of the Fubon Group, the Company believes that it has competitive advantages stemming from a high degree of cooperation within the Fubon Group and recognition of its strengths. With the continued support of the Fubon Group, the Company believes that it can maintain its leadership position in the evolving property and casualty insurance industry in Taiwan and expand its operations to other countries in Asia. In addition, the Company's high management proficiency and high personnel productivity should allow it to maintain strong profitability and balanced growth throughout the economic cycle.

Business Strategy

The Company's long-term goal is to maintain and enhance its position as the premier property and casualty insurance company in Taiwan and to maximize the returns from funds available for investments. In particular, the Company focuses on the following goals:

• Strengthening market share – the Company intends to strengthen its market share by continuing to focus on product lines with higher growth potential such as liability and engineering insurance. The Company also expects market share growth from industry consolidation resulting from the

deregulation of the Republic of China property and casualty insurance industry in which smaller competitors are expected to be forced to exit or be merged with larger, better capitalized firms such as the Company. The Company expects to be one of the main beneficiaries of deregulation in the industry due to its long-standing market position and superior capitalization.

- Maintaining below industry average loss and combined ratios the Company plans to ensure that its
 increasing market share translates directly into underwriting profits by continuing to maintain and
 improve its below industry average loss and combined ratios. The Company believes that its
 experienced actuarial team and prudent underwriting criteria allow the Company to identify higher
 quality risks and to price underwriting business accurately.
- Increasing focus on effective longer-term investments as funds available for investments of the Company increase, the Company's investment strategy is to maintain sufficient investments in short-term assets to meet liquidity needs and the short-term nature of its policies, and to increase the amount of longer-term investments to enhance its longer-term returns.

Recent Developments

On October 30, 2000, the Company announced that its results of operations for the nine months ended September 30, 2000, as compared to the nine months ended September 30, 1999, were as follows:

| | Nine Mon | ths Ended |
|--------------------|------------------------|-----------------------|
| | September 30, 2000 | September 30, 1999 |
| | (NT\$ thousands, excep | pt per share amounts) |
| Net profit | 2,309,568 | 2,302,071 |
| Pre-tax profit | 2,569,568 | 2,597,071 |
| Earnings per share | 1.31 | 1.34 |

Between September 25 and October 24, 2000, the Company repurchased in the open market 10 million Common Shares, at an average price per Common Share of NT\$19.31. During the period of October 25 to December 24, 2000, the Company plans to buy back an additional 50 million Common Shares at prices per Common Share ranging between NT\$15 and NT\$25. Under the applicable law, the Company can buy back, in the aggregate, up to 5% of the outstanding Common Shares.

The Travelers Insurance Group Inc. ("Travelers Insurance") and certain of its affiliates have proposed, subject to the satisfaction of certain conditions, to acquire 15% (on a fully diluted basis) of each of the Company and four of the Fubon Group financial services companies, for a total investment, including cash and assets, by affiliates of Travelers Insurance of approximately NT\$25.33 billion (U.S.\$817.24 million, based on the July 19, 2000 exchange rate of U.S.\$1.00=NT\$30.99), and an investment in the Company of approximately NT\$8.42 billion (U.S.\$271.75 million, based on the July 19, 2000 exchange rate of U.S. \$1 = NT\$30.99). In addition, Travelers Insurance and the Company intend to establish a strategic alliance in Taiwan, and Travelers Insurance, the Company and Fubon Life Assurance Co., Ltd. intend to enter into a regional cooperation agreement upon the closing of the Offering, which will cover certain aspects of their property and casualty insurance and life insurance operations in Singapore, Indonesia, Thailand, Malaysia, the Republic of the Philippines and the People's Republic of China (including Hong Kong). This Offering is part of a proposed alliance between Travelers Insurance and the Company.

THE OFFERING

The Issuer: Fubon Insurance Co., Ltd., a company incorporated under the laws of

the Republic of China.

Securities Offered: Global Depositary Shares, or GDSs, each representing ten (10)

Common Shares.

Aggregate Offering Amount: 31,500,000 GDSs, representing 315,000,000 Common Shares.

Offering Price: U.S.\$8.73 (NT\$270.60) per GDS, equivalent to U.S.\$0.87 (NT\$27.06)

per Common Share. The price per GDS in the Offering represents a substantial premium to recent trading prices of the Common Shares on

the Taiwan Stock Exchange. See "Market Price Information."

Common Shares Authorized: 2,500,000,000 shares

Common Shares Prior to the Offering: 1,759,776,471 shares (as of November 10, 2000)

Outstanding:

Use of Proceeds: The net proceeds of the Offering will be used for marketing, working

capital and general corporate purposes.

After the Offering: 2,074,776,471 shares

Dividends: In May 2000, the Company declared a cash and stock dividend with

respect to its Common Shares. This dividend, which was paid in August 2000, consisted of NT\$1.30 per share, in cash, plus a stock dividend of 0.02 Common Share per share. Purchasers of GDSs in the Offering will not be entitled to receive this cash and stock dividend. For a description of the Company's dividend policy, see "Description of

Share Capital."

Voting Rights: The Common Shares underlying the GDSs offered hereby will have

ordinary voting rights of one vote per share on all matters to be voted on by shareholders generally. See "Description of Share Capital – Voting Rights" and "Description of Global Depositary Shares – Voting

Rights."

Restrictions on Resale: GDSs offered outside the United States are being offered in reliance

upon the exemption from registration afforded by Regulation S under the Securities Act, and GDSs offered in the United States are being offered in reliance on Section 4(2) of the Securities Act. **Please consult**

your own advisor as to whether you qualify for this Offering.

None of the GDSs offered hereby will be registered under the Securities Act or other applicable securities laws, and the certificates representing GDSs will contain a legend restricting the distribution, resale, transfer, pledge, hypothecation or other disposition of these securities unless and until such securities are registered under the Securities Act and/or other applicable securities laws and certain other conditions are satisfied. The

certificates representing GDSs will contain a legend restricting transfer unless and until the securities are registered under the Securities Act and other applicable state and foreign securities laws or we receive an opinion of counsel that registration is not required under the Securities Act and such other laws.

Selling Agent

Salomon Smith Barney will serve as the Selling Agent in connection with the Offering. The Selling Agent will not be obligated to purchase any GDSs not sold in connection with the Offering.

Settlement of GDSs:

No arrangements have been made to render the GDSs eligible for inclusion in any clearing system, and no arrangements therefor may be made without the consent of Travelers Insurance. On or prior to the closing of this Offering, the Company will have deposited the Common Shares (or a certificate of payment representing such Common Shares) underlying the GDSs with Citibank, Taipei, as custodian for Citibank N.A., the depositary. Delivery of GDRs representing GDSs in definitive certificated form, against the payment therefor in immediately available, U.S. dollar-denominated funds, is expected to occur on or about November 16, 2000. For more details about the procedure for settlement of GDSs, see "Description of Global Depositary Shares – Settlement and Safekeeping."

Trading Markets:

The Common Shares of the Company have been traded on the Taiwan Stock Exchange since 1993. The GDSs sold in the Offering will not be listed for trading on any securities exchange. In addition, according to the laws and regulations of the Republic of China, the holders of GDSs will be unable to withdraw Common Shares during a lock-up period of three months following the closing of the Offering.

MARKET PRICE INFORMATION

The Company's Common Shares have been listed on the Taiwan Stock Exchange since 1993. The table below sets forth, for the periods indicated, the high and low closing prices and the average volume of trading activity on the Taiwan Stock Exchange for the Common Shares and the highest and lowest of the daily closing values of the Taiwan Stock Exchange Index. On November 4, 2000, the closing price of the Company's Common Shares on the Taiwan Stock Exchange was NT\$20 per share.

| | <u>.</u> | Actual Closing Price per Share (2) | | Average Daily Trading Volume | Taiwan Stock Exchange Index | |
|------|---|---------------------------------------|--------------|---------------------------------|--------------------------------|---------|
| Year | Quarter | High (NT\$) | Low (NTS) | (in thousands of shares) | High | Low |
| 1998 | First Quarter | 74 | 61 | 9,859 | 9378.52 | 7373.14 |
| | Second Quarter | 74 | 58 | 5,940 | 9337.61 | 7073.22 |
| | Third Quarter | 50.5 | 32.5 | 5,022 | 8116.57 | 6219.89 |
| | Fourth Quarter | 41.4 | 33 | 10,613 | 7488.43 | 6384.66 |
| 1999 | First Quarter | 36.1 | 26.7 | 8,058 | 7133.03 | 5422.66 |
| | Second Quarter | 42.2 | 31.8 | 14,358 | 8661.39 | 6875.67 |
| | Third Quarter | 33.8 | 24.2 | 3,572 | 8710.71 | 6771.75 |
| | Fourth Quarter | 28.6 | 23.9 | 4,077 | 8480.5 | 7261.31 |
| 2000 | First Quarter | 39.5 | 25.7 | 11,971 | 10393.59 | 8250.06 |
| | Second Quarter | 34.2 | 24 | 7,483 | 10328.98 | 8050.02 |
| | Third Quarter | 28 | 16.7 | 4,401 | 8643.21 | 6155.65 |
| | Fourth Quarter (through November 4, 2000) | 21.5 | 17.1 | 6,491 | 6425.69 | 5074.44 |

⁽¹⁾ Source: Taiwan Stock Exchange Statistical Data 1998-2000, TSE.

As of September 30, 2000, there were approximately 84,144 holders of record of shares of Common Shares. The Taiwan Stock Exchange has experienced substantial fluctuations in the prices of listed securities and there are currently limits on the range of daily price movements. For more information about the Taiwan Stock Exchange, see "The Securities Markets of the Republic of China."

⁽²⁾ Stock prices have not been retroactively adjusted for stock dividends paid by the Company.

THE COMPANY

The following is qualified in its entirety by the more detailed information and financial statements, including the notes thereto, appearing elsewhere in this Memorandum.

Introduction

The Company was incorporated on April 17, 1961 under the laws of the Republic of China, with the purpose of engaging in the business of property and casualty insurance. The Company believes that it is the leading property and casualty insurer in Taiwan. The Company's Common Shares were listed for trading on the Taiwan Stock Exchange in 1993. The Company presently underwrites a variety of insurance lines, including fire insurance, motor insurance, marine cargo insurance, marine hull and fishing vessel insurance, aviation insurance, engineering insurance, and a variety of lines of liability insurance. The Company's recently established Safety & Loss Control Department provides customers with loss prevention advisory services, and its company-wide claims operational system received ISO 9002 certification in 1999. For the year ended December 31, 1999 and the year ended December 31, 1998, the Company's net earned premiums were NT\$8,184 million and NT\$6,940 million, underwriting profits were NT\$787 million and NT\$654 million, the net income of the Company was NT \$2,602 million and NT\$1,342 million, the total assets of the Company were NT\$61,119 million and NT\$53,535 million, and the stockholders' equity was NT\$31,969 million and NT\$29,875 million, respectively. For the six months ended June 30, 2000, the total net income of the Company was NT\$1,940 million.

The Company is a full-service property and casualty insurer, and is part of the Fubon Group (the "Fubon Group"), which is a comprehensive financial services conglomerate in Taiwan. The Fubon Group consists of multiple publicly and privately held companies, and offers Taiwan's most complete line of financial products and services, such as investment consulting, securities, securities financing, investment trust, venture capital and futures investment. The Fubon Group also provides banking, life insurance, investment and construction-related services, thus responding to the diverse needs of the business community.

Principal Strengths

The Fubon Group has grown through its integrated marketing strategies, including the provision of complementary, interdisciplinary financial services, and the sharing of professional talent and other internal resources among the companies within the Fubon Group. As part of the Fubon Group, the Company believes that it has competitive advantages stemming from a high degree of cooperation within the Fubon Group and recognition of its strengths. With the continued support of the Fubon Group, the Company believes that it can maintain its leadership position in the evolving property and casualty insurance industry in Taiwan and expand its operations to other countries in Asia. In addition, the Company's high management proficiency and high personnel productivity should allow it to maintain strong profitability and balanced growth throughout the economic cycle.

Business Strategy

The Company's long-term goal is to maintain and enhance its position as the premier property and casualty insurance company in Taiwan and to maximize the returns from funds available for investments. In particular, the Company focuses on the following goals:

• Strengthening market share – the Company intends to strengthen its market share by continuing to focus on product lines with higher growth potential such as liability and engineering insurance. The

Company also expects market share growth from industry consolidation resulting from the deregulation of the Republic of China property and casualty insurance industry, in which smaller competitors are expected to be forced to exit or be merged with larger, better capitalized firms such as the Company. The Company expects to be one of the main beneficiaries of deregulation in the industry due to its long-standing market position and superior capitalization.

- Maintaining below industry average loss and combined ratios the Company plans to ensure that its
 increasing market share translates directly into underwriting profits by continuing to maintain and
 improve its below industry average loss and combined ratios. The Company believes that its
 experienced actuarial team and prudent underwriting criteria allow the Company to identify higher
 quality risks and to price underwriting business accurately.
- Increasing focus on effective longer-term investments as funds available for investments of the Company increase, the Company's investment strategy is to maintain sufficient investments in short-term assets to meet liquidity needs and the short-term nature of its policies, and to increase the amount of longer-term investments to enhance its longer-term returns.

DESCRIPTION OF SHARE CAPITAL

Set forth below is a summary of information relating to the Company's share capital including brief summaries of the relevant provisions of the Company's articles of incorporation, the Republic of China Securities and Exchange Law and the Republic of China Company Law.

General

As of November 10, 2000, the Company's authorized and paid-in share capital was NT\$17,597,764,710, divided into 1,759,776,471 Common Shares, all of which are issued and outstanding and in registered form. The Company's outstanding shares are held by public shareholders and other investors in Taiwan. The Company does not have any equity in the form of preferred shares, convertible bonds or otherwise outstanding as of the date of this Memorandum.

Dividends and Distributions

The Company is not permitted to distribute dividends or make other distributions to shareholders in any year in which it does not record net income. The Republic of China Company Law also requires that 10% of the Company's annual net income, less prior years' losses and outstanding tax, if any, be set aside as a legal reserve until the accumulated legal reserve equals the Company's paid-in capital. In addition, the Company's articles of incorporation provide that the remaining portion of the net income, less prior years' losses, outstanding taxes, the legal reserve and any special reserve, will be distributed as dividends and bonuses, in the manner and amount resolved at the meeting of the Company's shareholders; provided, that (1) 1% to 5% of the distributable earnings shall be distributed as employee bonuses and (2) 50% to 100% of the distributable earnings shall be distributed as dividends, divided into 0% to 30% of stock dividend and 70% to 100% cash dividend.

At each annual ordinary shareholders' meeting, the Company's board of directors submits to the shareholders for their approval any proposal for the distribution of a dividend or the making of any other distribution to shareholders from net income of the Company to the preceding fiscal year. All common shares outstanding and fully paid as of the relevant record date are entitled to share equally in any dividend or other distribution so approved. Dividends may be distributed in cash, in the form of common shares or a combination of the two, as determined by the shareholders at the meeting.

The Company is not permitted to distribute dividends and bonuses if the Company does not generate profit. However, in that case, under the Republic of China Company Law and the Company's articles of incorporation, if (1) the legal reserve of the Company exceeds 50% of its paid-in capital or (2) the amount of such legal reserve and special reserve in any year exceeds 20% of net income, the Company may use the excess amount to distribute dividends and bonuses. In addition, the Company is also permitted to make distributions to its shareholders of additional Common Shares by capitalizing reserves (including the legal reserve and any surplus reserve or capital surplus). However, amounts payable by capitalizing the Company's legal reserve are limited to 50% of the total accumulated legal reserve and this capitalization can only be effected when the accumulated legal reserve exceeds 50% of paid-in capital of the Company.

Changes in Share Capital

Under the Republic of China Company Law, any change in authorized share capital of the Company requires an amendment to its articles of incorporation, which in turn requires approval at the

meeting of the Company's shareholders. Authorized but unissued Common Shares may be issued, subject to applicable Republic of China law, upon terms as the Company's board of directors may determine.

Preemptive Rights

Under the Republic of China Company Law, when the Company issues new shares for cash, existing shareholders who are listed on the shareholders' register as of the record date have preemptive rights to subscribe for the new issue in proportion to their existing shareholdings, while the Company's employees, whether or not they are existing shareholders, have a similar right to subscribe for such shares. Any new shares that remain unsubscribed at the expiration of the subscription period may be offered to the public or privately placed by the Company.

In addition, in accordance with the Republic of China Securities and Exchange Law, a public company that intends to offer new shares for cash must conduct a public offering of at least 10% of the shares to be sold. This percentage can be increased by a resolution passed at a shareholders' meeting, which would diminish the number of new shares subject to the preemptive rights of existing shareholders.

Meetings of Shareholders

The Company is required by the Republic of China Company law and its articles of incorporation to hold an ordinary meeting of its shareholders within six months following the end of each fiscal year. These meetings are generally held in Taipei, Taiwan. Extraordinary shareholders' meetings may be convened by resolution of the board of directors or by the board of directors upon the written request of any shareholder or shareholders who have held 3% or more of the outstanding common shares for more than one year. Extraordinary shareholders' meetings may also be convened by a supervisor. Notice in writing of ordinary meetings of shareholders, stating the place, time and agenda must be dispatched to each shareholder at least 20 days, in the case of ordinary meetings, and 10 days, in the case of extraordinary meetings, before the date set for each meeting. Except in certain circumstances described below, a majority of the holders of all issued and outstanding common shares present at a shareholders' meeting constitutes a quorum for meetings of shareholders.

Voting Rights

The Company's articles of incorporation provide that a holder of Common Shares has one vote for each Common Share, except that a holder of more than 3% of the total outstanding common shares will be discounted by 5% of that portion of the holding in excess of 3%. The Company's articles of incorporation also provide for cumulative voting for the election of directors and supervisors.

In general, a resolution can be adopted by the holders of at least a majority of the Common Shares represented at a shareholders' meeting at which the holders of a majority of all issued and outstanding common shares are present. Under the Republic of China Company Law, the approval by at least a majority of the Common Shares represented at a shareholders' meeting in which a quorum of at least two-thirds of all issued and outstanding Common Shares are represented is required for major corporate actions, including:

- amendment to the Company's articles of incorporation;
- transfer of the whole or substantial part of the Company's business or assets;

- execute, amend or terminate any contract that leases the Company's whole business, mandates the Company's operation to other persons, or operates frequently the business for the joint interest of the Company and other persons;
- taking over of the whole of the business or assets of any other company which would have a significant impact on the Company's operations; and
- distribution of any share dividend.

In case of a dissolution or amalgamation, approval by a majority of the Common Shares represented at a shareholders' meeting in which a quorum of at least three-fourths of all issued and outstanding Common Shares are represented is required. Alternatively, the Republic of China Company Law provides that in the case of a public company, such as the Company, a resolution may be adopted by the holders of at least two-thirds (or three-fourths in case of dissolution or amalgamation) of the common shares represented at a meeting of shareholders at which holders of at least a majority of issued and outstanding common shares are present.

A shareholder may be represented at an ordinary or extraordinary meeting by proxy if a valid proxy form is delivered to the Company five days before the commencement of the ordinary or extraordinary shareholders' meeting. Except for trust enterprises, where one person is appointed as proxy by two or more shareholders who together hold more than 3% of the total issued common shares, the votes of those shareholders in excess of 3% of the outstanding common shares shall not be counted.

Holders of GDSs may exercise voting rights with respect to the underlying common shares in the manner as described in "Description of Depositary Global Receipts – Voting Rights."

Register of Shareholders and Record Dates

The Company's share registrar, Fubon Securities Co., Ltd., maintains its register of shareholders at its offices in Taipei, Taiwan, and enters transfers of Common Shares in its register upon presentation of, among other documents, certificates representing the Common Shares transferred. Under the Republic of China Company Law and the Company's articles of incorporation, the Company may, by giving advance public notice, set a record date and close the register of shareholders for a specified period in order to determine the shareholders and pledgees that are entitled to rights pertaining to the common shares. The specified period required is as follows:

- ordinary shareholders' meeting one month;
- extraordinary shareholders' meeting fifteen days; and
- relevant record date five days.

Annual Financial Statements

At least ten days before the annual ordinary shareholders' meeting, the Company's annual financial statements must be available at its principal office in Taipei, Taiwan for inspection by the shareholders.

Transfer of Common Shares

The transfer of Common Shares in registered form is effected by endorsement and delivery of the related share certificates but, in order to assert shareholders' rights against the Company, the transferee must have his name and address registered on the Company's register of shareholders. Shareholders are required to file their respective specimen seals, also known as chops, with the Company. Chops are official stamps widely used in Taiwan by individuals and other entities to authenticate the execution of official and commercial documents.

Repurchase of Common Shares by the Company

With minor exceptions, the Company cannot acquire its own Common Shares. Under the Republic of China Company Law, any Common Shares so acquired must be sold at the current market price within six months after their acquisition by the Company.

In addition, under the Republic of China Securities and Exchange Law, as amended on June 30, 2000 by the Legislative Yuan, which became effective on July 11, 2000, a company whose shares are listed on the Taiwan Stock Exchange or traded on the Over-the-Counter Securities Exchange may, pursuant to a board resolution adopted by a majority consent at a meeting attended by more than two-thirds of the directors and pursuant to the procedures prescribed by the Republic of China and Futures Commission, purchase its shares for the following purposes on the Taiwan Stock Exchange or the Over-the-Counter Exchange or by a tender offer:

- (1) for transfers of shares to the employees of such company;
- (2) for conversion into shares from bonds with warrants, preferred shares with warrants, convertible bonds, convertible preferred shares or certificates or warrants issued by such company; and
- (3) for maintaining its credit and its shareholders' equity, provided that the shares so purchased shall be cancelled thereafter.

The total shares purchased by a company may not exceed 10% of its total issued and outstanding shares. However, subject further to the Republic of China Insurance Law, the Company, as an insurance company, may not buy back more than 5% of its total issued and outstanding shares. In addition, the total amount for purchase of the shares shall not exceed the aggregate amount of the retained earnings, the premium from shares issues and the realized portion of the capital reserve.

The shares purchased by a company pursuant to items (1) and (2) above shall be transferred to the intended transferees within three years after the purchase, otherwise the same shall be cancelled. For the shares to be cancelled pursuant to item (3) above, a company must complete amendment registration for such cancellation within six months after the purchase.

The shares purchased by a company shall not be pledged or hypothecated. In addition, such company may not exercise any shareholders' rights attaching to these shares. Such company's affiliates (as defined in Article 369-1 of the Republic of China Company Law), directors, supervisors, managers and their respective spouses and minor children and/or nominees are prohibited from selling the shares of a company held by them during the purchase period of such shares reported by such company to the Republic of China Securities and Futures Commission.

Liquidation Rights

In the event of liquidation of the Company, the assets remaining after payment of all debts, liquidation expenses and taxes will be distributed pro rata to the shareholders in accordance with the relevant provisions of the Republic of China Company law and the Company's articles of incorporation.

Substantial Shareholders and Transfer Restrictions

The Republic of China Securities and Exchange Law currently requires that (1) each director, supervisor, manager or substantial shareholder (*i.e.*, shareholder who, together with his or her spouse, minor children or nominees, holds more than 10% of the shares of a public company) to report any change in that person's shareholding to the issuer of the shares, and (2) each director, supervisor, manager or substantial shareholder holding such common shares for more than a three month period to report his or her intent to transfer any shares listed on the Taiwan Stock Exchange or traded on the Over-the-Counter Securities Market to the Republic of China Securities and Futures Commission at least three days before the intended transfer, unless the number of shares to be transferred is less than 10,000 shares.

In addition, the number of shares that can be sold or transferred on the Taiwan Stock Exchange by any person subject to the restrictions described above on any given day may not exceed:

- 0.5% of the outstanding shares of a company, in case of such company with no more than 30 million outstanding shares; or
- 0.5% of 30 million shares plus 0.25% of the outstanding shares exceeding 30 million shares in the case of a company with more than 30 million outstanding shares; or
- in any case, 10% of the average trading volume (number of shares) on the Taiwan Stock Exchange for the ten consecutive trading days preceding the reporting date on which day the director, supervisor, manager or substantial shareholder reports the intended share transfer to the Republic of China Securities and Futures Commission.

These restrictions do not apply to sales or transfers of the Company's GDSs.

DESCRIPTION OF GLOBAL DEPOSITARY SHARES

Citibank, N.A. has agreed to act as the depositary for the Global Depositary Shares, or "GDSs." Citibank's depositary offices in New York are located at 111 Wall Street, New York, New York 10005. Citibank's depositary offices in London are located at Cottons Centre, Hays Lane, London SE1 2QT, England. Restricted and Regulation S Global Depositary Shares are referred to as "Restricted GDSs" and "Regulation S GDSs," respectively. In this summary the Company intends to use the term "GDSs" to refer to both the Restricted GDSs and to the Regulation S GDSs. Unless otherwise stated, you should assume that the term "GDSs" encompasses both Restricted GDSs and Regulation S GDSs. GDSs are represented by certificates that are commonly known as "Global Depositary Receipts" or "GDRs." The GDSs the Company is selling in United States are referred to and will be issued as Restricted GDS and the GDSs the Company is selling outside the United States are referred to and will be issued as the Regulation S GDSs. GDSs represent ownership interests in securities that are on deposit with the depositary.

The depositary has appointed a custodian to safe keep the securities on deposit. In this case, the custodian is Citibank, N.A., Taipei Branch, having its principal office at Citicorp Center, 52, Min Sheng East Road, Section 4, Taipei, the Republic of China.

The Company has appointed Citibank as depositary pursuant to two separate deposit agreements, one for the Restricted GDSs (the "restricted deposit agreement") and one for the Regulation S GDSs (the "Regulation S deposit agreement"). A copy of the deposit agreements may be obtained from the depositary. This is a summary description of the material terms of the GDSs and of your material rights as an owner of GDSs. Please remember that summaries by their nature lack the precision of the information summarized and that the rights and obligations of an owner of GDSs will be determined by reference to the terms of the applicable deposit agreement and not by this summary. The Company urges you to review the deposit agreements in their entirety.

For a period of 90 days, each GDS will represent an undivided interest in a certificate of payment the Company has issued to represent the irrevocable right to receive definitive common shares from the Company at the expiration of such period. Each GDS will during such period, represent an interest in the certificate of payment representing the right to receive ten (10) Common Shares from the Company at the end of such period. After such period, each GDS will represent, the right to receive ten (10) Common Shares on deposit with the custodian. A GDS will also represent the right to receive any other property received by the depositary or the custodian on behalf of the owner of the GDS but that has not been distributed to the owners of GDSs because of legal restrictions or practical considerations.

If you become an owner of GDSs, you will become a party to the applicable deposit agreement and therefore will be bound to its terms and to the terms of the GDR that represents your GDSs. The deposit agreement and the GDR specify the Company's rights and obligations as well as your rights and obligations as owner of GDSs and those of the depositary. As a GDS holder you appoint the depositary to act on your behalf in certain circumstances. The deposit agreements and the GDRs are governed by New York law. However, the Company's obligations to the holders of the Common Shares will continue to be governed by the laws of the Republic of China, which may be different from the laws in the United States, Hong Kong or other jurisdictions.

When the Company refers to "you," the Company assumes the reader owns GDSs and will own GDSs at the relevant time. When the Company refers to a "holder" the Company assumes the person owns GDSs and such person's agent (*i.e.*, broker, custodian, bank, trust company) is the holder of the applicable GDR.

Distinctions between "Restricted GDSs" and "Regulation S GDSs"

The Restricted GDSs and the Regulation S GDSs are similar in many ways but are different primarily on account of the requirements of the U.S. securities laws and certain contractual limitations. The Restricted GDSs are "restricted securities" under the U.S. securities laws and as such are subject to limitations on their issuance, transfer and cancellation. The Regulation S GDSs are not *per se* "restricted securities" under the U.S. securities laws, but the Company has imposed certain contractual restrictions on the Regulation S GDSs in an effort to prevent the transfer of Regulation S GDSs in violation of the U.S. securities laws. The restrictions the Company imposes on the Regulation S GDSs will be in place for a period of 40 days after the Company closes the offering of the Regulation S GDSs described in this Information Memorandum.

These distinctions and the requirements of the U.S. securities laws may require the Company and the depositary to treat the Regulation S GDSs and the Restricted GDSs differently at any time in the future. There can be no guarantee that holders of Restricted GDSs will receive the same entitlements as holders of Regulation S GDSs and *vice versa*. Please refer to the applicable deposit agreements to determine your rights as GDS owner. A copy of the deposit agreement is available from the depositary upon request.

Settlement and Safekeeping

The Company and the depositary have not made arrangements for the GDSs to be eligible in any clearing system and no such arrangements may be made without the consent of Travelers Insurance. Definitive GDRs will be printed to represent the applicable GDS and will be delivered to the applicable GDS owners.

Transfer Restrictions

The GDSs may be resold, pledged or otherwise transferred only in compliance with the U.S. securities laws. The transfer limitations applicable to the Regulation S GDSs and the Restricted GDSs are described in the legends set forth below. Prior to transfer of your GDSs, you will be asked by the depositary to provide certifications confirming the appropriateness of the transfer under applicable law and the deposit agreements. A form of the transfer certifications is attached to the deposit agreements and is available from the depositary upon request.

Dividends and Distributions

As a holder, you generally have the right to receive the distributions the Company makes on the securities deposited with the custodian. Your receipt of these distributions may be limited, however, by practical considerations and legal limitations. Holders will receive such distributions under the terms of the deposit agreements in proportion to the number of GDSs held as of a specified record date.

Distributions of Cash

Whenever the Company makes a cash distribution for the securities on deposit with the custodian, the Company will notify the depositary and deposit the funds with the custodian. Upon receipt of such notice and of confirmation of the deposit of the requisite funds, the depositary will arrange for the funds to be converted into U.S. dollars and for the distribution of the U.S. dollars to the holders, subject to Republic of China laws and regulations.

The conversion into U.S. dollars will take place only if practicable and if the U.S. dollars are transferable to the United States. The amounts distributed to holders will be net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreements. The depositary will apply the same method for distributing the proceeds of the sale of any property (such as undistributed rights) held by the custodian in respect of securities on deposit.

Distributions of Common Shares

Whenever the Company makes a free distribution of the Common Shares for the securities on deposit with the custodian, the Company will notify the depositary and deposit the applicable number of Common Shares with the custodian. Upon receipt of notice of such deposit, the depositary will either distribute to holders new GDSs representing the Common Shares deposited or modify the GDS-to-shares ratio, in which case each GDS you hold will represent rights and interests in the additional Common Shares so deposited. Only whole new GDSs will be distributed. Fractional entitlements will be sold and the proceeds of such sale will be distributed as in the case of a cash distribution.

The distribution of new GDSs or the modification of the GDS-to-shares ratio upon a distribution of Common Shares will be made net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreements. In order to pay such taxes or governmental charges, the depositary may sell all or a portion of the new Common Shares so distributed.

No such distribution of new GDSs will be made if it would violate U.S. law (*i.e.*, the U.S. securities laws) or if it is not operationally practicable. If the depositary does not distribute new GDSs as described above, it will use its best efforts to sell the Common Shares received and will distribute the proceeds of the sale as in the case of a distribution of cash.

Distributions of Rights

Whenever the Company intends to distribute rights to purchase additional Common Shares, it will give prior notice to the depositary and it will assist the depositary in determining whether it is lawful and reasonably practicable to distribute rights to purchase additional GDSs to holders.

The depositary will establish procedures to distribute rights to purchase additional GDSs to holders and to enable such holders to exercise such rights if it is lawful and reasonably practicable to make the rights available to holders of GDSs, and if the Company provides all of the documentation contemplated in the applicable deposit agreement (such as opinions to address the lawfulness of the transaction). You may have to pay fees, expenses, taxes and other governmental charges to subscribe for the new GDSs upon the exercise of your rights. The depositary is not obligated to establish procedures to facilitate the distribution and exercise by holders of rights to purchase new Common Shares other than in the form of GDSs.

The depositary will *not* distribute the rights to you if:

- The Company fails to deliver satisfactory documents to the depositary; or
- It is not reasonably practicable to distribute the rights.

The depositary will sell the rights that are not exercised or not distributed if such sale is lawful and reasonably practicable. The proceeds of such sale will be distributed to holders as in the case of a cash distribution. If the depositary is unable to sell the rights, it will allow the rights to lapse.

Elective Distributions

Whenever the Company intends to distribute a dividend payable at the election of shareholders either in cash or in additional Common Shares, the Company will give prior notice thereof to the depositary and will indicate whether we wish the elective distribution to be made available to you. In such case, the Company will assist the depositary in determining whether such distribution is lawful and reasonably practicable.

The depositary will make the election available to you only if it is reasonably practicable and if the Company has provided all of the documentation contemplated in the deposit agreement. In such case, the depositary will establish procedures to enable you to elect to receive either cash or additional GDSs, in each case as described in the deposit agreements.

If the election is not made available to you, you will receive either cash or additional GDSs, depending on what a shareholder in the Republic of China would receive upon failing to make an election, as more fully described in the corresponding deposit agreement.

Other Distributions

Whenever the Company intends to distribute property other than cash, Common Shares or rights to purchase additional Common Shares, the Company will notify the depositary in advance and will indicate whether the Company wishes such distribution to be made to you. If so, the Company will assist the depositary in determining whether such distribution to holders is lawful and reasonably practicable.

If it is reasonably practicable to distribute such property to you and if the Company provides all of the documentation contemplated in the deposit agreements, the depositary will distribute the property to the holders in a manner it deems practicable.

The distribution will be made net of fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreement. In order to pay such taxes and governmental charges, the depositary may sell all or a portion of the property received.

The depositary will *not* distribute the property to you and will sell the property if:

- The Company does not request that the property be distributed to you or if we ask that the property not be distributed to you; or
- The Company does not deliver satisfactory documents to the depositary; or
- The depositary determines that all or a portion of the distribution to you is not reasonably practicable.

The proceeds of such a sale will be distributed to holders as in the case of a cash distribution.

Changes Affecting the Common Shares

The Common Shares held on deposit for your GDSs are subject to change from time to time. For example, there may be a split-up, cancellation, consolidation or reclassification of such Common Shares or a recapitalization, reorganization, merger, consolidation or sale of assets.

If any such change were to occur, your GDSs would, to the extent permitted by law, represent the right to receive the property received or exchanged in respect of the Common Shares held on deposit.

The depositary may in such circumstances deliver new GDSs to you or call for the exchange of your existing GDSs for new GDSs. If the depositary may not lawfully distribute such property to you, the depositary may sell such property and distribute the net proceeds to you as in the case of a cash distribution.

Issuance of GDSs upon Deposit of Common Shares

Subject to the terms of the applicable deposit agreements and the requirements of Republic of China law, the depositary may create GDSs on your behalf if you or your broker deposit Common Shares with the custodian. The depositary will deliver these GDSs to the person you indicate only after you pay any applicable issuance fees and any charges and taxes payable for the transfer of the Common Shares to the custodian and you provide the applicable deposit certification. Your ability to deposit Common Shares and receive GDSs may be limited by U.S. and the Republic of China legal considerations applicable at the time of deposit.

Under the laws of the Republic of China, as in effect currently, the depositary shall not increase the size of the GDS issuance or re-issue GDSs without specific approval of the Republic of China Securities and Futures Commission, except for the following:

- the distribution of share dividends or other free distribution of shares, or
- the exercise of preemptive rights on the part of GDS holders at the time of an offering by the Company for cash, or
- the GDSs are redeemed and the Common Shares underlying such redeemed GDSs are sold, then bought back from the domestic market by the holders of GDSs or by the depositary delegated by the holders of GDSs, within the scope of such sold Common Shares and delivered to the custodian, the depositary may, subject to the laws and regulations of Republic of China and in accordance with the provisions of the depositary agreement and the custodian agreement, within the scope of such sold Common Shares re-issue the GDRs.

Please note that the laws of the Republic of China may change from time to time. Future changes of the Republic of China law may adversely affect your ability to deposit Common Shares.

The issuance of GDSs may be delayed until the depositary or the custodian receives confirmation that all required approvals have been given and that the Common Shares have been duly transferred to the custodian. The depositary will only issue GDSs in whole numbers.

When you make a deposit of Common Shares, you will be responsible for transferring good and valid title to the depositary. As such, you will be deemed to represent and warrant that:

- The Common Shares are duly authorized, validly issued, fully paid, non-assessable and legally obtained.
- All preemptive (and similar) rights, if any, with respect to such Common Shares have been validly waived or exercised.
- You are duly authorized to deposit the Common Shares.
- The Common Shares presented for deposit are free and clear of any lien, encumbrance, security interest, charge, mortgage or adverse claim.

- The Common Shares presented for deposit have not been stripped of any rights or entitlements.
- The Common Shares deposited in the Regulation S GDR facility are not, and the Regulation S GDSs issued upon deposit will not be, "restricted securities" (under the Securities Act).

If any of the representations or warranties are incorrect in any way, the Company and the depositary may, at your cost and expense, take any and all actions necessary to correct the consequences of the misrepresentations.

When you deposit Common Shares to receive GDSs, you will be required to provide the depositary with a deposit certification confirming the appropriateness of the deposit under law and the terms of the deposit agreement. The deposit certifications for the Regulation S GDSs are quite different from the deposit certifications required for Restricted GDSs. A copy of the form of deposit certifications for the GDSs is attached to the applicable deposit agreements and may be obtained from the depositary upon request.

Withdrawal of Common Shares Upon Cancellation of GDSs

As a holder, you will be entitled to present your GDSs to the depositary for cancellation and then receive the corresponding number of underlying Common Shares at the custodian's offices. Your ability to withdraw the Common Shares may be limited by U.S. and the Republic of China law considerations applicable at the time of withdrawal. Under the applicable laws and regulations of the Republic of China, the holders of the GDSs may not withdraw the Common Shares represented by the GDSs during a three-months lock-up period following the closing of the Offering. In order to withdraw the Common Shares represented by your GDSs, you will be required to pay to the depositary the fees for cancellation of GDSs and any charges and taxes payable upon the transfer of the Common Shares being withdrawn and you will be required to provide to the depositary the applicable withdrawal certification. You assume the risk for delivery of all funds and securities upon withdrawal. Once canceled, the GDSs will not have any rights under the corresponding deposit agreement.

Under current Republic of China law, any person withdrawing Common Shares from the GDR facilities will be required to appoint an eligible agent in the Republic of China to open a securities trading account with the approval of the Taiwan Stock Exchange and a related bank account. Without such appointment, you will not be able to hold or sell the Common Shares in the Republic of China. The laws of the Republic of China may change from time to time. Future changes of the Republic of China law may adversely affect your ability to withdraw Common Shares.

Until such time as the Company delivers Common Shares to the depositary in satisfaction of the Company's obligation under the certificate of payment, your GDSs will represent an undivided interest in a certificate of payment. You will be able to withdraw Common Shares upon cancellation of your GDS only after the Company has delivered Common Shares to the depositary in satisfaction of the certificate of payment.

If you hold a GDR registered in your name, the depositary may ask you to provide proof of identity and genuineness of any signature and such other documents as the depositary may deem appropriate before it will cancel your GDSs. The withdrawal of the Common Shares represented by your GDSs may be delayed until the depositary receives satisfactory evidence of compliance with all

applicable laws and regulations. Please keep in mind that the depositary will only accept GDSs for cancellation that represent a whole number of securities on deposit.

The deposit agreements may not be modified to impair your right to withdraw the securities represented by your GDSs except to comply with mandatory provisions of law.

When you request the withdrawal of the Common Shares represented by your Restricted GDSs, you will be required to provide the depositary with a withdrawal certification confirming the appropriateness of the withdrawal under law and the terms of the applicable deposit agreement. The withdrawal certifications for the Regulation S GDSs are quite different from those for the Restricted GDSs. A form of the withdrawal certifications is attached to the applicable deposit agreements and can be obtained from the depositary upon request.

Anyone withdrawing Common Shares from the GDR facilities will be asked to certify the following information to the Company and the Depositary so as to enable the Company to comply with certain Republic of China reporting obligations:

- whether or not you are one of the Company's "Related Persons" (as defined below),
- the number of Common Shares and GDSs you will own after the withdrawal of Common Shares,
- that you are or represent the beneficial owner of the GDSs presented to the depositary for the purpose of withdrawing Common Shares, and
- the name, address and nationality of the beneficial owner of the GDSs presented for cancellation and withdrawal of Common Shares.

Voting Rights

As a GDSs owner, you generally have the right under the deposit agreements to instruct the depositary to exercise the voting rights for the Common Shares represented by your GDSs. For a description of the voting rights of holders of Common Shares, see "Description of Share Capital – Voting Rights."

Under the Company's Articles of Incorporation and Republic of China Company Law and related regulations, the right of shareholders to vote Common Shares is subject to the following:

- the number of votes holders of more than 3% of the outstanding Common Shares can exercise is discounted by 5% of the number of Common Shares hold in excess of 3%,
- the election of directors and supervisor takes place by means of cumulative voting.
- shareholders cannot split their voting rights (other than in an election of directors and supervisors) and must vote all Common Shares held in the same manner.

At the Company's request, the depositary will distribute to you any notice of shareholders' meeting timely received from the Company together with information explaining how to instruct the depositary to exercise the voting rights of the securities represented by GDSs.

Holders of GDSs will not have individual voting rights with respect to the Common Shares represented as the depositary as record holder of those Common Shares must vote all Common Shares in GDR facility in he same manner.

If the depositary timely receives voting instructions from an owner of GDSs, it will endeavor to vote the securities represented by the owner's GDSs in accordance with such voting instructions and the terms of the applicable deposit agreement.

If holders of GDSs in any GDR facility together vote at least a majority all GDSs outstanding in the same manner, the depositary shall take the actions necessary to appoint a representative of the depositary and the holders of GDSs to attend the shareholders meeting with authority and instruction to vote <u>all</u> Common Shares held in the GDR facility in accordance with the instructions of the majority of the GDSs holders.

If holders of GDSs in any GDR facility together do not vote at least a majority of all GDSs outstanding in the same manner for any reason, other than the Company's failure to timely provide the depositary with the requisite information about the shareholders' meeting, the depositary shall on the basis of deemed instructions of holders of GDSs under the terms of the applicable deposit agreement, give a discretionary proxy to the representative designated by Travelers Insurance to vote all Common Shares held in the GDR facility in his/her discretion. The manner in which the discretionary proxy is voted may not be in the interest of GDS holders. The ability of the depositary to grant the discretionary proxy in the circumstances described above is subject to the depositary receiving an opinion of counsel addressing the legality and potential liability of so acting.

The depositary shall, to the extent not prohibited by Republic of China law, make an independent determination of voting instructions received from for each GDR facility, and as a result the voting instructions of holders of Restricted GDSs should not affect the voting rights of holders of Regulation S GDSs, and *vice versa*.

The Company cannot assure you that you will receive voting materials in time to enable you to return voting instructions to the depositary in a timely manner.

Fees and Charges

As a GDS holder, you will be required to pay the following service fees to the depositary:

| | Service | <u>Fees</u> |
|---|--------------------------------------|-----------------------------|
| • | Issuance of GDSs | Up to U.S.5¢ per GDS issued |
| • | Cancellation of GDSs | No fees |
| • | Distribution of GDSs | Up to U.S.5¢ per GDS issued |
| | pursuant to stock dividends, | |
| | free stock distributions or exercise | |
| | of rights | |
| • | Distribution of cash dividends or | Up to U.S.2¢ per GDS held |

Transfer of GDRs

U.S.\$1.50 per certificate presented for transfer

As a GDS holder you will also be responsible to pay certain fees and expenses incurred by the depositary and certain taxes and governmental charges such as:

- Fees for the delivery, transfer and registration of the Common Shares charged by the registrar and transfer agent for the Common Shares in the Republic of China (i.e., upon deposit and withdrawal of Common Shares).
- Expenses incurred for converting foreign currency into U.S. dollars and in complying with exchange control regulations.
- Expenses for cable, telex and fax transmissions and for delivery of securities.
- Taxes and duties upon the transfer of securities (*i.e.*, when Common Shares are deposited or withdrawn from deposit).

The Company has agreed to pay certain other charges and expenses of the depositary. Note that the fees and charges you may be required to pay may vary over time and may be changed by the Company and by the depositary. You will receive prior notice of such changes.

Amendments and Termination

The Company may agree with the depositary to modify the Regulation S deposit agreement at any time without the consent of holders of Regulation S GDSs. The Company undertakes to give holders of Regulation S GDSs 30 days' prior notice of any modifications that would materially prejudice any of their substantial rights under the Regulation S deposit agreement. The Company will not consider to be materially prejudicial to substantial rights any modifications or supplements that are reasonably necessary for the Regulation S GDSs to be registered under the Securities Act, in each case without imposing or increasing the fees and charges you are required to pay. You will be bound by the modifications to the Regulation S deposit agreement if you continue to hold your Regulation S GDSs after the modifications to the applicable deposit agreements become effective.

The Company may agree with the depositary to modify the restricted deposit agreement at ay time but only (i) upon the expiration of thirty days' notice and (ii) if certain holders of restricted GDSs have not delivered a written notice of objection to such amendment to the depositary and to the Company prior to the expiration of the thirty days notice period.

The deposit agreement cannot be amended to prevent you from withdrawing the Common Shares represented by your GDSs (except as permitted by law). The Company may not be able to provide you with prior notice of any modifications or supplements that are required to accommodate compliance with applicable provisions of law.

The Company has the right to direct the depositary to terminate the deposit agreements. Similarly, the depositary may in certain circumstances on its own initiative terminate the deposit agreements. In either case, the depositary must give notice to the holders at least 30 days before termination.

Upon termination, the following will occur under the deposit agreement:

- <u>for a period of six months after termination</u>, you will be able to request the cancellation of your GDSs and the withdrawal of the Common Shares represented by your GDSs and the delivery of all other property held by the depositary in respect of those Common Shares on the same terms as prior to the termination. During such six months' period the depositary will continue to collect all distributions received on the Common Shares on deposit (*i.e.*, dividends) but will not distribute any such property to you until you request the cancellation of your GDSs.
- After the expiration of such six months' period, the depositary may sell the securities held on deposit. The depositary will hold the proceeds from such sale and any other funds then held for the holders of GDSs in a non-interest bearing account. At that point, the depositary will have no further obligations to holders other than to account for the funds then held for the holders of GDSs still outstanding.

Books of Depositary

The depositary will maintain GDS holder records at its depositary office. You may inspect such records at such office at reasonable times but solely for the purpose of communicating with other holders in the interest of business matters relating to the GDSs and the deposit agreements.

The depositary will maintain in New York facilities to record and process the issuance, cancellation, combination, split-up and transfer of GDRs. These facilities may be closed from time to time, to the extent not prohibited by law.

Limitations on Obligations and Liabilities

The deposit agreement limits the Company's obligations and the depositary's obligations to you. Please note the following:

- The Company and the depositary are obligated only to take the actions specifically stated in the deposit agreements without negligence or bad faith.
- The depositary disclaims any liability for any failure to carry out voting instructions, for any manner in which a vote is cast or for the effect of any vote, provided it acts in good faith and in accordance with the terms of the deposit agreements.
- The depositary disclaims any liability for any failure to determine the lawfulness or practicality of any action, for the content of any document forwarded to you on the Company's behalf or for the accuracy of any translation of such a document, for the investment risks associated with investing in Common Shares, for the validity or worth of the Common Shares, for any tax consequences that result from the ownership of GDSs, for the credit-worthiness of any third party, for allowing any rights to lapse under the terms of the deposit agreements, for the timeliness of any of the Company's notices or for the Company's failure to give notice.
- The Company and the depositary will not be obligated to perform any act that is inconsistent with the terms of the deposit agreements.
- The Company and the depositary disclaim any liability if the Company is prevented or forbidden from acting on account of any law or regulation, any provision of the

Company's Articles of Incorporation, any provision of any securities on deposit or by reason of any act of God or war or other circumstances beyond the Company's control.

- The Company and the depositary disclaim any liability by reason of any exercise of, or failure to exercise, any discretion provided for the deposit agreements or in the Company's Articles of Association or in any provisions of securities on deposit.
- The Company and the depositary further disclaim any liability for any action or inaction in reliance on the advice or information received from legal counsel, accountants, any person presenting Common Shares for deposit, any holder of GDSs or authorized representatives thereof, or any other person believed by either of the Company and the depositary in good faith to be competent to give such advice or information.
- The Company and the depositary also disclaim liability for the inability by a holder to benefit from any distribution, offering, right or other benefit which is made available to holders of Common Shares but is not, under the terms of the deposit agreements, made available to you.
- The Company and the depositary may rely without any liability upon any written notice, request or other document believed to be genuine and to have been signed or presented by the proper parties.
- The Company and the depositary also disclaim any liability for consequential or punitive damages for any breach of the terms of the applicable deposit agreements.

Pre-Release Transactions

The depositary may, in certain circumstances, issue GDSs before receiving a deposit of Common Shares or release Common Shares before receiving GDSs for cancellation. These transactions are commonly referred to as "pre-release transactions." The deposit agreements limit the aggregate size of pre-release transactions and imposes a number of conditions on such transactions (*i.e.*, the need to receive collateral, the type of collateral required, the representations required from brokers, etc.). The depositary may retain the compensation received from the pre-release transactions.

The depositary may, in certain circumstances, cause the Common Shares represented by GDSs to be sold in the Republic of China before receiving the GDR that represents such GDSs for cancellation. The transactions are referred to as "pre-cancellation sales". The deposit agreements limit the aggregate size of pre-cancellation sales transactions and imposes a number of restrictions on such transactions (i.e. the collateral to be received and the representations required from the brokers). The depositary may retain compensation received from pre-cancellation sales transactions.

Taxes

You will be responsible for the taxes and other governmental charges payable on the GDSs and the securities represented by the GDSs. The Company, the depositary and the custodian may deduct from any distribution the taxes and governmental charges payable by holders and may sell any and all property on deposit to pay the taxes and governmental charges payable by holders. You will be liable for any deficiency if the sale proceeds do not cover the taxes that are due.

The depositary may refuse to issue GDSs, to deliver, transfer, split and combine GDRs or to release securities on deposit until all taxes and charges are paid by the applicable holder. The depositary

and the custodian may take reasonable administrative actions to obtain tax refunds and reduced tax withholding for any distributions on your behalf. However, you may be required to provide to the depositary and to the custodian proof of taxpayer status and residence and such other information as the depositary and the custodian may require to fulfill legal obligations. You are required to indemnify the Company, the depositary and the custodian for any claims with respect to taxes based on any tax benefit obtained for you.

Foreign Currency Conversion

The depositary will arrange for the conversion of all foreign currency received into U.S. dollars if such conversion is practicable, and it will distribute the U.S. dollars in accordance with the terms of the deposit agreements. You may have to pay fees and expenses incurred in converting foreign currency, such as fees and expenses incurred in complying with currency exchange controls and other governmental requirements.

If the conversion of foreign currency is not practicable or lawful, or if any required approvals are denied or not obtainable at a reasonable cost or within a reasonable period, the depositary may take the following actions in its discretion:

- Convert the foreign currency to the extent practicable and lawful and distribute the U.S. dollars to the holders for whom the conversion and distribution is lawful and practicable.
- Distribute the foreign currency to holders for whom the distribution is lawful and practicable.
- Hold the foreign currency (without liability for interest) for the applicable holders.

Legends

The Restricted GDR(s) issued to represent the Restricted GDSs offered for sale herein shall contain, and all owners of Restricted GDSs shall be bound by the terms of, the following legend:

NEITHER THIS RESTRICTED GDR, NOR THE RESTRICTED GDSs EVIDENCED HEREBY, NOR THE COMMON SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER, SALE, PLEDGE OR OTHER TRANSFER OF THIS RESTRICTED GDR, THE RESTRICTED GDSs EVIDENCED HEREBY AND THE COMMON SHARES REPRESENTED THEREBY EACH IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS RESTRICTED GDR AND THE RESTRICTED GDSs EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH RESTRICTED GDR, THE RESTRICTED GDSs EVIDENCED HEREBY AND THE COMMON SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS RESTRICTED GDR, THE RESTRICTED GDSs EVIDENCED HEREBY AND THE COMMON SHARES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND ONLY (1)

OUTSIDE THE UNITED STATES TO A PERSON OTHER THAN A U.S. PERSON (AS SUCH TERMS ARE DEFINED IN REGULATION S UNDER THE SECURITIES ACT) IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (2) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), OR (3) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT.

THE BENEFICIAL OWNER OF COMMON SHARES RECEIVED UPON CANCELLATION OF ANY RESTRICTED GDS MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH COMMON SHARES INTO ANY DEPOSITARY RECEIPT FACILITY ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH COMMON SHARES ARE "RESTRICTED SECURITIES" WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE COMMON SHARES OR THE RESTRICTED GDSs.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RESTRICTED GDR OR A BENEFICIAL INTEREST IN THE RESTRICTED GDSs EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

The Regulation S GDR(s) issued to represent the Regulation S GDSs offered for sale herein shall contain, and all owners of Regulation S GDSs shall be bound by the terms of, the following legend:

NEITHER THIS REGULATION S GDR, NOR THE REGULATION S GDSs EVIDENCED HEREBY, NOR THE COMMON SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER. SALE. PLEDGE OR OTHER TRANSFER OF THIS REGULATION S GDR. THE REGULATION S GDSs EVIDENCED HEREBY AND THE COMMON SHARES REPRESENTED THEREBY EACH IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS REGULATION S GDR AND THE REGULATION S GDSs EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH REGULATION S GDR, THE REGULATION S GDSs EVIDENCED HEREBY AND THE COMMON SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS REGULATION S GDR, THE REGULATION S GDSs EVIDENCED HEREBY AND THE COMMON SHARES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES. TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND, PRIOR TO THE EXPIRATION OF THE RESTRICTED PERIOD (DEFINED AS 40 DAYS AFTER THE LATER OF (I) THE COMMENCEMENT OF THE OFFERINGS OF (A) REGULATION S GDSs OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S AND ANY OTHER APPLICABLE LAW IN TRANSACTION S EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT AND (B) RESTRICTED GDSs IN THE UNITED STATES TO QUALIFIED INSTITUTIONAL

BUYERS, AND (II) THE CLOSING DATE WITH RESPECT TO THE REGULATION S GDSs) ONLY (1) OUTSIDE THE UNITED STATES TO A PERSON OTHER THAN A U.S. PERSON (AS SUCH TERMS ARE DEFINED IN REGULATION S UNDER THE SECURITIES ACT) IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (2) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), OR (3) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT;

UPON THE EXPIRATION OF THE RESTRICTED PERIOD, THIS REGULATION S GDR, THE REGULATION S GDSs EVIDENCED HEREBY AND THE COMMON SHARES REPRESENTED BY REGULATION S GDSs SHALL NO LONGER BE SUBJECT TO THE RESTRICTIONS ON TRANSFER PROVIDED IN THIS LEGEND, PROVIDED THAT AT THE TIME OF SUCH EXPIRATION THE OFFER AND SALE OF THE REGULATION S GDSs EVIDENCED HEREBY AND THE COMMON SHARES REPRESENTED THEREBY BY THE HOLDER THEREOF IN THE UNITED STATES WOULD NOT BE RESTRICTED UNDER THE SECURITIES LAWS OF THE UNITED STATES OR ANY STATE, TERRITORY OR POSSESSION OF THE UNITED STATES.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS REGULATION S GDR OR A BENEFICIAL INTEREST IN THE REGULATION S GDSs EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

THE SECURITIES MARKETS OF THE REPUBLIC OF CHINA

The information provided in this section has been extracted from various government and other publicly available publications which have not been prepared or independently verified by the Company, the Selling Agent, the depositary or any of their respective affiliates or advisors in connection with this Offering. References to the Republic of China Securities and Futures Commission in this section include both the Republic of China Securities and Futures Commission and its predecessor, the Republic of China Securities and Exchange Commission.

In September 1960, the government established the Republic of China Securities and Exchange Commission to supervise and control all aspects of the domestic securities market and the Taiwan Stock Exchange was established soon thereafter. In the 1970s and the early 1980s, the government of the Republic of China implemented steps designed to upgrade the quality and importance of the Taiwan securities markets, such as encouraging listing on the Taiwan Stock Exchange and establishing an over-the-counter market (recently proposed to be renamed as TAISDAQ). In the mid-1980s, the government revised its laws and regulations to facilitate the gradual internationalization of the Taiwan securities markets. In 1997, the Republic of China Securities and Exchange Commission was renamed the Republic of China Securities and Futures Commission.

The Taiwan Stock Exchange

In 1961, the Republic of China Securities and Futures Commission, working with private interests, established the Taiwan Stock Exchange to provide a marketplace for securities trading. The Taiwan Stock Exchange is a corporation owned by government-controlled and private banks and enterprises. The Taiwan Stock Exchange is independent of entities transacting business through it, each of which pays a users fee. Subject to limited exceptions, all transactions in listed securities by brokers, traders and integrated securities firms (firms which are permitted to combine the activities of brokerage, dealing and underwriting) must be made through the Taiwan Stock Exchange.

The Taiwan Stock Exchange commenced operations in 1962 and during the remainder of the 1960s grew at a slow pace, largely due to lack of experience among issuers and investors and an unwillingness on the part of Taiwan businesses to offer their shares to the public. During the early 1980s, the Republic of China Securities and Futures Commission more actively encouraged new listings on the Taiwan Stock Exchange and the number of listed companies grew from 119 in 1983 to 462 by the end of 1999. As of October 20, 2000, the total market value of shares listed on the Taiwan Stock Exchange was approximately NT\$8,470 billion.

The Republic of China Securities and Futures Commission promulgated regulations that would permit foreign issuers to list their equity securities directly on the Taiwan Stock Exchange or through the use of depositary receipts on the Taiwan Stock Exchange. To date, only one foreign issuer has been approved to list its securities on the Taiwan Stock Exchange in the form of depositary receipts and supranational institutions, such as the Asian Development Bank, have been approved to list their debt instruments on the Taiwan Stock Exchange. The Taiwan Stock Exchange established specific requirements for listing based on the company's number and distribution of shareholders, years in existence, capital, profitability and capital structure.

For a company to be listed, it must have been established for at least five fiscal years, have paid-in capital of at least NT\$300.0 million for the latest two fiscal years and have at least 1,000 registered shareholders, including not fewer than 500 shareholders holding between 1,000 and 50,000 shares each. These 500 shareholders must together hold either at least 20% of the outstanding shares or at least 10

million shares. The company may not have an accumulated deficit for the previous fiscal year and the pre-tax net profit and operating profit levels of the company must meet any of the following requirements: (1) having exceeded 6% of paid-in capital for each of the previous two fiscal years or (2) having exceeded 6% in average of the paid-in capital for the previous two fiscal years with the profitability of the most recent fiscal year being superior than that of the preceding fiscal year or (3) having been no less than 3% of the paid-in capital for each of the previous five fiscal years. However, special listing criteria apply to high-tech companies and key businesses engaging in national economic development.

The Over-the-Counter Securities Market

To complement the Taiwan Stock Exchange, an over-the-counter market was established in September 1982 on the initiative of the Republic of China Securities and Futures Commission. In early 1988, the Republic of China Securities and Futures Commission promulgated regulations designed to encourage trading of unlisted securities of companies whose securities do not quality for listing on the Taiwan Stock Exchange. The over-the-counter market is currently limited to unlisted equity securities, bank and corporate bonds and debentures and government bonds. As of December 31, 1999, 264 public companies had offered their equity securities on the over-the-counter market. The value of all bonds outstanding in the over-the-counter market grew from approximately NT\$76.0 billion at the end of 1983 to NT\$1,161.3 billion on December 31, 1999.

Taiwan Stock Exchange Index

The Taiwan Stock Exchange Index is comparable to the Standard and Poor's Index in the United States and the Nikkei Stock Average in Japan. It is calculated on the basis of a wide selection of listed shares weighted according to the number of shares outstanding. The Taiwan Stock Exchange Index is compiled using the "Paasche Formula" by dividing the market value by the base day's total market value for the index shares. The Taiwan Stock Exchange Index is the oldest and most widely quoted market index in Taiwan.

The weighing of stocks in the index is fixed as long as the number of shares outstanding remains constant. When the total number of shares outstanding changes, the weight of each stock is adjusted. Stock splits and stock dividends are adjusted automatically. Cash dividends are not included in the calculation.

The following table sets forth, for the periods indicated, information relating to the Taiwan Stock Exchange Index.

Trading Value

| | | | Trading | g value | |
|-----------------------------|---|-----------|----------|-----------|--------------------|
| | Number of Listed Companies at Period | (NT\$ | Index | | Index at Period |
| <u>Period</u> | End | billions) | High | Index Low | End |
| 1992 | 256 | 5,917.0 | 5,391.6 | 3,327.6 | 3,377.0 |
| 1993 | 285 | 9,070.5 | 6,070.5 | 3,135.5 | 6,070.5 |
| 1994 | 313 | 18,812.1 | 7,183.7 | 5,194.6 | 7,124.6 |
| 1995 | 347 | 10,151.5 | 7,051.4 | 4,503.3 | 5,173.7 |
| 1996 | 382 | 12,907.5 | 6,982.8 | 4,690.2 | 6,933.9 |
| 1997 | 404 | 31,241.1 | 10,116.8 | 6,820.3 | 8,187.2 |
| 1998 | 437 | 29,618.9 | 9,277.0 | 6,251.3 | 6,418.4 |
| 1999 | 462 | 29,291.5 | 8,608.9 | 5,475.0 | 8,448.8 |
| 2000 (through September 30) | 525 | 26,076.0 | 10,202.2 | 6,185.1 | 6,185.1 |

Source: Status of Securities Listed on Taiwan Stock Exchange July 2000 - Taiwan Stock Exchange.

As indicated above, the performance of securities traded on the Taiwan Stock Exchange has in recent years been characterized by extreme price volatility.

Price Limits, Commissions, Transaction Tax and Other Matters

Fluctuations in the price of securities traded on the Taiwan Stock Exchange or Over-the-Counter Securities Exchange are subject to a restriction of 7% above and below the previous day's closing price (or reference price set by the Taiwan Stock Exchange or the Over-the-Counter Securities Exchange if the previous day's closing price is not available because of lack of trading activity) in the case of equity securities and 5% in the case of debt securities, The price limit for movements below the previous day's closing price was temporarily revised to 3.5% following the September 21, 1999 earthquake, but has since reverted to 7%. Following the presidential election of Taiwan, the price limit was again revised to 3.5% for five business days from 20 March 2000 to 24 March 2000. The price limit was again revised to 3,5% for a period from October 4, 2000 to October 11, 2000 due to the resignation of the premier of the Republic of China. The price limit was also revised to 3.5% for a period from October 20, 2000 to November 7, 2000. The Republic of China Securities and Futures Commission announced that limitations on price fluctuations will be relaxed with a view towards eventually eliminating all share price fluctuation controls.

Brokerage commissions are set by the Taiwan Stock Exchange. The commission rate may be at any rate not exceeding 0.1425% of the transaction price for equity securities. However, lower rates can be charged to different clients by securities houses at their sole discretion provided that they report the rates to the Taiwan Stock Exchange. Effective from July 1, 2000, the brokerage commission may not exceed 0.14250% of the transaction price. A securities transaction tax, currently levied at the rate of 0.3% of the transaction price, is payable by the seller of equity securities, and a tax at the rate of 0.1% of the transaction price is payable by the seller of debt securities other than government bonds. The securities transaction taxes are withheld at the time of the transaction giving rise to the taxes. Sales of shares of companies listed on the Taiwan Stock Exchange are currently sold in "round lots" of 1,000 shares. Investors who would like to sell less than 1,000 shares of a listed company occasionally experience delays in effecting these sales. Transactions that include 500 trading lots, that is 500,000 shares, or more must be registered and executed pursuant to Taiwan Stock Exchange guidelines.

Regulation and Supervision

The Republic of China Securities and Futures Commission has been under the jurisdiction of the Ministry of Finance since 1981. The Republic of China Securities and Futures Commission has extensive regulatory authority over companies listed on the Taiwan Stock Exchange and unlisted public issuing companies generally, including Taiwanese companies whose capital exceed the currently specified minimum amount of NT\$200 million. These companies are generally required to obtain approval from, or register with, the Republic of China Securities and Futures Commission for all securities offerings. The Republic of China Securities and Futures Commission has promulgated regulations requiring, unless otherwise exempted, periodic reporting of financial and operating information by all public companies. In addition, the Republic of China Securities and Futures Commission is responsible for the establishment of standards for financial reporting and carries out licensing and supervision with respect to the other participants in the Taiwan securities market.

The Republic of China Securities and Futures Commission has responsibility for implementing the Republic of China Securities and Exchange Law and for overall administration of governmental policies in the Taiwan securities market. It has extensive regulatory authority over the offering, issue and trading of securities. In addition, the Republic of China Securities and Exchange Law specifically empowers the Republic of China Securities and Futures Commission to promulgate rules under specified circumstances.

The Republic of China Securities and Exchange Law prohibits market manipulation. It also permits an issuer to recover certain short-term trading profits made through purchases and sales within six months by directors, managerial personnel, supervisors as well as spouses, minor children and nominees of the foregoing person and shareholders of the issuer together with their spouses, minor children and nominees holding 10% or more of the issuer's outstanding shares. The Republic of China Securities and Exchange Law prohibits trading by "insiders" based on non-public information that materially affects share price movements. According to the Republic of China Securities and Exchange Law, the term "insiders" includes directors, supervisors, managers as well as spouses, minor children and nominees of the foregoing persons and shareholders of the issuing company together with their spouses, minor children and nominees holding 10% or more of the issuer's outstanding shares, any person who has learned the information due to an occupational or controlling relationship with the issuing company and any person who has learned the information from any of the foregoing. Sanctions may include prison terms. In addition, damages may be awarded to persons injured by the transaction. Notwithstanding these regulatory requirements, there have been recurring press reports on insider trading and manipulation of stock prices in Taiwan.

The Republic of China Securities and Exchange Law imposes criminal liability on certified public accountants and lawyers making false certifications in their examination and audit of an issuer's contracts, reports and other evidentiary documents that are related to securities transactions. The Republic of China Securities and Futures Commission requires that financial reports of listed companies be audited by accounting firms consisting of at least three certified public accountants and be signed by at least two certified public accountants.

The Republic of China Securities and Exchange Law was amended in January 1988 to provide for, among other things:

- new regulations relating to public offerings of securities;
- measures to strengthen the capital structure of issuers;
- civil liability for material misstatements or omissions made by issuers;
- more stringent regulation of the securities activities of officers, directors and major shareholders of issuers;
- regulations regarding tender offers; and
- a significant expansion of the prohibitions against insider trading, including the imposition of treble civil damages and criminal sanctions.

The Republic of China Securities and Exchange Law was amended in May 1997 to provide for, among other things, the qualifications of personnel at securities firms.

The Republic of China Securities and Exchange Law was recently amended on July 19, 2000 to provide for, among other things, new regulations relating to (1) treasury stocks; (2) discretionary trading by securities investment consulting enterprises or securities investment trust enterprises on behalf of their

customers; (3) increasing the amount of corporate bonds public companies may issue; (4) more stringent regulation for insider trading: and (5) permission for companies to issue uncertificated securities.

The Republic of China Securities and Futures Commission does not have criminal or civil enforcement powers under the Republic of China Securities and Exchange Law. Criminal actions may be pursued only by the district prosecutors located in the district where the defendant is domiciled or where the violation occurred. Under Republic of China law, civil actions may only be brought by plaintiffs who assert that they have suffered damages. The Republic of China Securities and Futures Commission is directly empowered to curb abuses and violations of applicable laws and regulations only through administrative measures such as the issuance of warnings, temporary suspension of operation, imposition of administrative fines and revocation of licenses.

In addition to providing a market for securities trading, the Taiwan Stock Exchange has primary responsibility for reviewing applications by Taiwanese issuers to list securities on the Taiwan Stock Exchange. The Republic of China Securities and Futures Commission also reviews all securities offerings by listed companies. If issuers of listed securities violate relevant laws and regulations or encounter significant difficulties, the Taiwan Stock Exchange may, with the approval of the Republic of China Securities and Futures Commission, delist securities of these issuers.

REPUBLIC OF CHINA TAXATION

Republic of China Taxation

The discussion in this section describes the principal Republic of China tax consequences of the ownership and disposition of GDSs representing Common Shares, and of Common Shares. It applies to you only if you are:

- an individual who is not a citizen of the Republic of China, who owns GDSs and who is not physically present in Taiwan for 183 days or more during any calendar year, or
- a corporation or a non-corporate body that is organized under the laws of a jurisdiction other than the Republic of China for profit-making purposes and has no fixed place of business or other permanent establishment in Taiwan.

You should also consult your tax advisors concerning the Republic of China tax consequences of owning GDSs.

This section does not describe the tax consequences of owning and disposing of GDSs or Common Shares under the laws of any jurisdiction other than Taiwan. Prospective investors should consult their own tax advisors for advice under such other laws relevant to them.

Dividends

Dividends declared by the Company out of its retained earnings and distributed to you are subject to Republic of China withholding tax, currently at the rate of 20%, on the amount of the distribution in the case of cash dividends, or on the par value of the common shares in the case of stock dividends. However, a 10% Republic of China retained earnings tax paid by the Company on its undistributed after-tax earnings, if any, would provide a credit up to 10% of the gross amount of any dividends declared out of such earnings that would reduce the 20% Republic of China tax imposed on these distributions.

Share dividends paid by the Company out of its capital reserves are not subject to Republic of China withholding tax.

Capital gains

Gains from the sale of property in the Republic of China are generally subject to Republic of China income tax. However, under current Republic of China law, capital gains on securities transactions (including the sale of common shares) are exempt from income tax.

Sales of GDRs are regarded as transactions relating to property located outside the Republic of China and thus any gains derived therefrom are currently not subject to Republic of China income tax.

Subscription rights

Distributions of statutory subscription rights for common shares in compliance with Republic of China law are not subject to any Republic of China tax. Proceeds derived from sales of statutory subscription rights evidenced by securities are exempted from income tax but are subject to securities transaction tax at the rate of 0.3% of the gross amount received. Proceeds derived from sales of statutory subscription rights which are not evidenced by securities are subject to capital gains tax at the rate of:

- 35% of the gross amount received if you are a natural person; or
- 25% of the gross amount received if you are an entity that is not a natural person;

Subject to compliance with Republic of China law, the Company, in its sole discretion, can determine whether statutory subscription rights shall be evidenced by issuance of securities.

Securities transaction tax

A securities transaction tax, at the rate of 0.3% of the gross amount received, payable by the seller will be withheld upon a sale of common shares in Taiwan. Transfers of GDSs and the withdrawal of Common Shares from the deposit facility will not be subject to Republic of China securities transaction tax.

Estate and gift tax

Republic of China estate tax is payable on any property within Taiwan of a deceased who is a non-resident individual, and Republic of China gift tax is payable on any property within Taiwan donated by any such person. Estate tax is currently payable at rates ranging from 2% of the first NT\$600,000 to 50% of amounts over NT\$100,000,000. Gift tax is payable at rates ranging from 4% of the first NT\$600,000 to 50% of amounts over NT\$45,000,000. Under Republic of China estate and gift tax law, common shares issued by Taiwan companies are deemed located in Taiwan regardless of the location of the owner. It is not clear whether the GDSs will be regarded as property located in Taiwan under Republic of China estate and gift tax law.

Tax treaty

The Republic of China does not have an income tax treaty with the United States. On the other hand, the Republic of China has income tax treaties with Indonesia, Singapore, South Africa, Australia, Vietnam, New Zealand, Malaysia, Macedonia, Swaziland and Gambia, which may limit the rate of Republic of China withholding tax on dividends paid with respect to common shares in Taiwan companies. It is unclear whether if you hold GDSs, you will be considered to hold common shares for the purposes of these treaties. Accordingly, if you may otherwise be entitled to the benefits of the relevant income tax treaty, you should consult your tax advisors concerning your eligibility for the benefits with respect to the GDSs.

PLACEMENT

This Memorandum relates to the offering by the Company of its GDSs both inside and outside the United States. In the United States, the offer to purchase GDSs is being made in reliance on Section 4(2) of the Securities Act. Outside the United States, the Offering is being made in reliance upon Regulation S promulgated under the Securities Act.

The GDSs will not be offered or sold in Hong Kong by means of any document, other than to persons whose ordinary business it is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of the laws of Hong Kong. Except as permitted under the securities laws of Hong Kong, the Company has not and will not issue in Hong Kong, or have in its possession for the purpose of the Offering, any advertisement, invitation or document relating to the GDSs other than with respect to the GDSs which are intended to be disposed of to persons outside of Hong Kong or only to persons in Hong Kong whose ordinary business involves the acquisition, disposal or holding of securities, whether as principal or agent.

In addition, the Company has entered into an agreement with Salomon Smith Barney providing for its service as the Selling Agent in connection with the placement of the Company's GDSs in the Offering. Pursuant to such Agreement, the Company has agreed to indemnify the Selling Agent in connection the Offering.

Prospective investors invited to subscribe will be furnished appropriate documentation to conclude their purchase of GDSs from the Company.

INDEPENDENT ACCOUNTANTS

The Independent Auditors' Report of the Company for the fiscal years ended December 31, 1999 and 1998, as well as for the six months period ended June 30, 2000 and 1999 included in this Memorandum beginning on page F-1 has been prepared by BDO Taiwan Union & Co., certified public accountants and is in accordance with Taiwanese generally accepted accounting principles ("Taiwan GAAP") and Taiwanese generally accepted auditing standards and the applicable guidelines of Taiwan, the Republic of China. Taiwanese GAAP differs from generally accepted accounting principles in the United States, and from International Accounting Standard ("IAS").

INDEX TO FINANCIAL STATEMENTS

Financial Statements of Fubon Insurance Co., Ltd. for the six months period ended June 30, 2000 and 1999

| Independent Auditors' Report | F-2 |
|---|---------------------|
| Balance Sheets as of June 30, 2000 and 1999 | F-3 |
| Statements of Income for the six months ended June 30, 2000 and 1999 | F-5 |
| Statements of Changes in Stockholders' Equity for the six months ended June 30, 2000 and 1999 | F-6 |
| Statements of Cash Flows for the six months ended June 30, 2000 and 1999 | |
| Notes to Financial Statements | |
| the years ended December 31, 1999 and 1998 | |
| Independent Auditors' Report | E 24 |
| Balance Sheets as of December 31, 1998 and 1998 | |
| Barance sheets as of December 31, 1776 and 1776 | F_35 |
| Statements of Income for the years ended December 31, 1999 and 1998 | F-35 |
| Statements of Income for the years ended December 31, 1999 and 1998 | F-35 |
| Statements of Income for the years ended December 31, 1999 and 1998 | F-35 F37 F-38 |

INDEPENDENT AUDITORS' REPORT

To: Board of Directors

Fubon Insurance Co., Ltd.

We have audited the accompanying balance sheets of Fubon Insurance Co., Ltd. as of June 30, 2000 and 1999, and the related statements of income, changes in stockholders' equity, and cash flows for the sixmonths period ended June 30, 2000 and 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with generally accepted auditing standards in Taiwan, Republic of China, and the regulations governing such audits. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fubon Insurance Co., Ltd. as of June 30, 2000 and 1999, and the results of its operations and its cash flows for the six-months period ended June 30, 2000 and 1999, in conformity with ROC generally accepted accounting principles.

BDO TAIWAN UNION & CO.

August 2, 2000

BALANCE SHEETS JUNE 30, 1999 AND 2000

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|--|--|-------------|---------------------------------------|
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| Due from other insurers 959,815 769,943 Other receivables 1,681,520 487,427 Prepayments 73,359 92,002 46,628,974 41,031,830 Loans 149,305 72,494 Mortgage loans (Notes 8) 149,305 72,494 Sub-total 149,305 72,494 Funds, Long-term Investments and Receivables 14,245,812 11,827,131 Long-term investments (Notes 2, 9) 14,245,812 11,827,131 Fixed Assets (Notes 2, 10) 600,550 623,950 Buildings 1,087,735 1,099,345 Transportation equipment 78,620 75,277 Other equipment 369,034 350,633 Cost 2,135,939 2,149,205 Less: accumulated depreciation (542,170) (465,558) Construction in progress and equipment ordered 89,520 25,921 Sub-total 1,094 0 Guarantee deposits paid 2,789,395 2,553,922 Overdue receivables (Note 11) 0 162,026 | Premiums receivables (Notes 2, 6) | 2,162,846 | 2,063,396 |
| Other receivables 1,681,520 487,427 Prepayments 73,359 92,002 46,628,974 41,031,830 Loans Mortgage loans (Notes 8) 149,305 72,494 Sub-total 149,305 72,494 Funds, Long-term Investments and Receivables 149,305 72,494 Funds, Long-term investments (Notes 2, 9) 14,245,812 11,827,131 Sub-total 14,245,812 11,827,131 Fixed Assets (Notes 2, 10) 600,550 623,950 Buildings 1,087,735 1,099,345 Transportation equipment 78,620 75,277 Other equipment 369,034 350,633 Cost 2,135,939 2,149,205 Less: accumulated depreciation (542,170) (465,558) Construction in progress and equipment ordered 89,520 25,921 Sub-total 1,683,289 1,709,568 Other Assets Non-operating assets (Net) 1,094 0 Guarantee deposits paid 2,789,395 2,553,922 Overdue receivables (Note 11) <td>Reinsurance recovery receivables (Notes 7)</td> <td>8,884,377</td> <td>4,532,065</td> | Reinsurance recovery receivables (Notes 7) | 8,884,377 | 4,532,065 |
| Prepayments 73,359 92,002 46,628,974 41,031,830 Mortgage loans (Notes 8) 149,305 72,494 Sub-total 149,305 72,494 Funds, Long-term Investments and Receivables 114,245,812 11,827,131 Long-term investments (Notes 2, 9) 14,245,812 11,827,131 Fixed Assets (Notes 2, 10) 600,550 623,950 Buildings 1,087,735 1,099,345 Transportation equipment 78,620 75,277 Other equipment 369,034 350,633 Cost 2,135,939 2,149,205 Less: accumulated depreciation (542,170) (465,558) Construction in progress and equipment ordered 89,520 25,921 Sub-total 1,683,289 1,709,568 Other Assets Non-operating assets (Net) 1,094 0 Guarantee deposits paid 2,789,395 2,553,922 Overdue receivables (Note 11) 0 162,026 Reinsurance liability reserve contributed 8,900 13,455 Deferred charges | Due from other insurers | 959,815 | 769,943 |
| Prepayments 73,359 92,002 46,628,974 41,031,830 Mortgage loans (Notes 8) 149,305 72,494 Sub-total 149,305 72,494 Funds, Long-term Investments and Receivables 114,245,812 11,827,131 Long-term investments (Notes 2, 9) 14,245,812 11,827,131 Fixed Assets (Notes 2, 10) 600,550 623,950 Buildings 1,087,735 1,099,345 Transportation equipment 78,620 75,277 Other equipment 369,034 350,633 Cost 2,135,939 2,149,205 Less: accumulated depreciation (542,170) (465,558) Construction in progress and equipment ordered 89,520 25,921 Sub-total 1,683,289 1,709,568 Other Assets Non-operating assets (Net) 1,094 0 Guarantee deposits paid 2,789,395 2,553,922 Overdue receivables (Note 11) 0 162,026 Reinsurance liability reserve contributed 8,900 13,455 Deferred charges | Other receivables | | |
| Loans 149,305 72,494 Sub-total 149,305 72,494 Funds, Long-term Investments and Receivables 14,245,812 11,827,131 Long-term investments (Notes 2, 9) 14,245,812 11,827,131 Sub-total 600,550 623,950 Buildings 1,087,735 1,099,345 Transportation equipment 78,620 75,277 Other equipment 369,034 350,633 Cost 2,135,939 2,149,205 Less: accumulated depreciation (542,170) (465,558) Construction in progress and equipment ordered 89,520 25,921 Sub-total 1,094 0 Guarantee deposits paid 2,789,395 2,553,922 Overdue receivables (Note 11) 0 162,026 Reinsurance liability reserve contributed 8,900 13,455 Deferred charges 45,622 8,018 Sub-total 2,845,011 2,737,421 | Prepayments | 73,359 | |
| Loans 149,305 72,494 Sub-total 149,305 72,494 Funds, Long-term Investments and Receivables 14,245,812 11,827,131 Long-term investments (Notes 2, 9) 14,245,812 11,827,131 Sub-total 600,550 623,950 Buildings 1,087,735 1,099,345 Transportation equipment 78,620 75,277 Other equipment 369,034 350,633 Cost 2,135,939 2,149,205 Less: accumulated depreciation (542,170) (465,558) Construction in progress and equipment ordered 89,520 25,921 Sub-total 1,094 0 Guarantee deposits paid 2,789,395 2,553,922 Overdue receivables (Note 11) 0 162,026 Reinsurance liability reserve contributed 8,900 13,455 Deferred charges 45,622 8,018 Sub-total 2,845,011 2,737,421 | • • | 46,628,974 | 41,031,830 |
| Sub-total 149,305 72,494 Funds, Long-term Investments and Receivables 14,245,812 11,827,131 Long-term investments (Notes 2, 9) 14,245,812 11,827,131 Sub-total 14,245,812 11,827,131 Fixed Assets (Notes 2, 10) 600,550 623,950 Buildings 1,087,735 1,099,345 Transportation equipment 78,620 75,277 Other equipment 369,034 350,633 Cost 2,135,939 2,149,205 Less: accumulated depreciation (542,170) (465,558) Construction in progress and equipment ordered 89,520 25,921 Sub-total 1,683,289 1,709,568 Other Assets Non-operating assets (Net) 1,094 0 Guarantee deposits paid 2,789,395 2,553,922 Overdue receivables (Note 11) 0 162,026 Reinsurance liability reserve contributed 8,900 13,455 Deferred charges 45,622 8,018 Sub-total 2,845,011 2,737,421 | Loans | | · · · · · · · · · · · · · · · · · · · |
| Sub-total 149,305 72,494 Funds, Long-term Investments and Receivables 14,245,812 11,827,131 Long-term investments (Notes 2, 9) 14,245,812 11,827,131 Sub-total 14,245,812 11,827,131 Fixed Assets (Notes 2, 10) 600,550 623,950 Buildings 1,087,735 1,099,345 Transportation equipment 78,620 75,277 Other equipment 369,034 350,633 Cost 2,135,939 2,149,205 Less: accumulated depreciation (542,170) (465,558) Construction in progress and equipment ordered 89,520 25,921 Sub-total 1,683,289 1,709,568 Other Assets Non-operating assets (Net) 1,094 0 Guarantee deposits paid 2,789,395 2,553,922 Overdue receivables (Note 11) 0 162,026 Reinsurance liability reserve contributed 8,900 13,455 Deferred charges 45,622 8,018 Sub-total 2,845,011 2,737,421 | Mortgage loans (Notes 8) | 149,305 | 72,494 |
| Funds, Long-term Investments and Receivables Long-term investments (Notes 2, 9) 14,245,812 11,827,131 Sub-total 14,245,812 11,827,131 Fixed Assets (Notes 2, 10) 600,550 623,950 Buildings 1,087,735 1,099,345 Transportation equipment 78,620 75,277 Other equipment 369,034 350,633 Cost 2,135,939 2,149,205 Less: accumulated depreciation (542,170) (465,558) Construction in progress and equipment ordered 89,520 25,921 Sub-total 1,683,289 1,709,568 Other Assets 1,094 0 Ourarantee deposits paid 2,789,395 2,553,922 Overdue receivables (Note 11) 0 162,026 Reinsurance liability reserve contributed 8,900 13,455 Deferred charges 45,622 8,018 Sub-total 2,845,011 2,737,421 | | | |
| Long-term investments (Notes 2, 9) 14,245,812 11,827,131 Sub-total 14,245,812 11,827,131 Fixed Assets (Notes 2, 10) 600,550 623,950 Buildings 1,087,735 1,099,345 Transportation equipment 78,620 75,277 Other equipment 369,034 350,633 Cost 2,135,939 2,149,205 Less: accumulated depreciation (542,170) (465,558) Construction in progress and equipment ordered 89,520 25,921 Sub-total 1,683,289 1,709,568 Other Assets Non-operating assets (Net) 1,094 0 Guarantee deposits paid 2,789,395 2,553,922 Overdue receivables (Note 11) 0 162,026 Reinsurance liability reserve contributed 8,900 13,455 Deferred charges 45,622 8,018 Sub-total 2,845,011 2,737,421 | | | |
| Sub-total 14,245,812 11,827,131 Fixed Assets (Notes 2, 10) Cand. 600,550 623,950 Buildings. 1,087,735 1,099,345 Transportation equipment 78,620 75,277 Other equipment 369,034 350,633 Cost. 2,135,939 2,149,205 Less: accumulated depreciation (542,170) (465,558) Construction in progress and equipment ordered 89,520 25,921 Sub-total 1,683,289 1,709,568 Other Assets Non-operating assets (Net) 1,094 0 Guarantee deposits paid 2,789,395 2,553,922 Overdue receivables (Note 11) 0 162,026 Reinsurance liability reserve contributed 8,900 13,455 Deferred charges 45,622 8,018 Sub-total 2,845,011 2,737,421 | | 14.245.812 | 11.827.131 |
| Fixed Assets (Notes 2, 10) Land | - · · · · · · · · · · · · · · · · · · · | | |
| Land 600,550 623,950 Buildings 1,087,735 1,099,345 Transportation equipment 78,620 75,277 Other equipment 369,034 350,633 Cost 2,135,939 2,149,205 Less: accumulated depreciation (542,170) (465,558) Construction in progress and equipment ordered 89,520 25,921 Sub-total 1,683,289 1,709,568 Other Assets Non-operating assets (Net) 1,094 0 Guarantee deposits paid 2,789,395 2,553,922 Overdue receivables (Note 11) 0 162,026 Reinsurance liability reserve contributed 8,900 13,455 Deferred charges 45,622 8,018 Sub-total 2,845,011 2,737,421 | _ | | , |
| Land 600,550 623,950 Buildings 1,087,735 1,099,345 Transportation equipment 78,620 75,277 Other equipment 369,034 350,633 Cost 2,135,939 2,149,205 Less: accumulated depreciation (542,170) (465,558) Construction in progress and equipment ordered 89,520 25,921 Sub-total 1,683,289 1,709,568 Other Assets Non-operating assets (Net) 1,094 0 Guarantee deposits paid 2,789,395 2,553,922 Overdue receivables (Note 11) 0 162,026 Reinsurance liability reserve contributed 8,900 13,455 Deferred charges 45,622 8,018 Sub-total 2,845,011 2,737,421 | Fixed Assets (Notes 2, 10) | | |
| Buildings 1,087,735 1,099,345 Transportation equipment 78,620 75,277 Other equipment 369,034 350,633 Cost 2,135,939 2,149,205 Less: accumulated depreciation (542,170) (465,558) Construction in progress and equipment ordered 89,520 25,921 Sub-total 1,683,289 1,709,568 Other Assets 1,094 0 Guarantee deposits paid 2,789,395 2,553,922 Overdue receivables (Note 11) 0 162,026 Reinsurance liability reserve contributed 8,900 13,455 Deferred charges 45,622 8,018 Sub-total 2,845,011 2,737,421 | | 600.550 | 623,950 |
| Transportation equipment 78,620 75,277 Other equipment 369,034 350,633 Cost 2,135,939 2,149,205 Less: accumulated depreciation (542,170) (465,558) Construction in progress and equipment ordered 89,520 25,921 Sub-total 1,683,289 1,709,568 Other Assets 1,094 0 Guarantee deposits paid 2,789,395 2,553,922 Overdue receivables (Note 11) 0 162,026 Reinsurance liability reserve contributed 8,900 13,455 Deferred charges 45,622 8,018 Sub-total 2,845,011 2,737,421 | | | |
| Other equipment 369,034 350,633 Cost 2,135,939 2,149,205 Less: accumulated depreciation (542,170) (465,558) Construction in progress and equipment ordered 89,520 25,921 Sub-total 1,683,289 1,709,568 Other Assets 1,094 0 Guarantee deposits paid 2,789,395 2,553,922 Overdue receivables (Note 11) 0 162,026 Reinsurance liability reserve contributed 8,900 13,455 Deferred charges 45,622 8,018 Sub-total 2,845,011 2,737,421 | | | |
| Cost | | | |
| Less: accumulated depreciation (542,170) (465,558) Construction in progress and equipment ordered 89,520 25,921 Sub-total 1,683,289 1,709,568 Other Assets 1,094 0 Guarantee deposits paid 2,789,395 2,553,922 Overdue receivables (Note 11) 0 162,026 Reinsurance liability reserve contributed 8,900 13,455 Deferred charges 45,622 8,018 Sub-total 2,845,011 2,737,421 | | | |
| Construction in progress and equipment ordered 89,520 25,921 Sub-total 1,683,289 1,709,568 Other Assets 1,094 0 Non-operating assets (Net) 2,789,395 2,553,922 Overdue receivables (Note 11) 0 162,026 Reinsurance liability reserve contributed 8,900 13,455 Deferred charges 45,622 8,018 Sub-total 2,845,011 2,737,421 | | | · |
| Sub-total 1,683,289 1,709,568 Other Assets Non-operating assets (Net) 1,094 0 Guarantee deposits paid 2,789,395 2,553,922 Overdue receivables (Note 11) 0 162,026 Reinsurance liability reserve contributed 8,900 13,455 Deferred charges 45,622 8,018 Sub-total 2,845,011 2,737,421 | | | |
| Other Assets Non-operating assets (Net) 1,094 0 Guarantee deposits paid | | | |
| Non-operating assets (Net) 1,094 0 Guarantee deposits paid 2,789,395 2,553,922 Overdue receivables (Note 11) 0 162,026 Reinsurance liability reserve contributed 8,900 13,455 Deferred charges 45,622 8,018 Sub-total 2,845,011 2,737,421 | | 1,005,207 | 1,700,500 |
| Non-operating assets (Net) 1,094 0 Guarantee deposits paid 2,789,395 2,553,922 Overdue receivables (Note 11) 0 162,026 Reinsurance liability reserve contributed 8,900 13,455 Deferred charges 45,622 8,018 Sub-total 2,845,011 2,737,421 | Other Assets | | |
| Guarantee deposits paid 2,789,395 2,553,922 Overdue receivables (Note 11) 0 162,026 Reinsurance liability reserve contributed 8,900 13,455 Deferred charges 45,622 8,018 Sub-total 2,845,011 2,737,421 | | 1.094 | 0 |
| Overdue receivables (Note 11) 0 162,026 Reinsurance liability reserve contributed 8,900 13,455 Deferred charges 45,622 8,018 Sub-total 2,845,011 2,737,421 | | | |
| Reinsurance liability reserve contributed 8,900 13,455 Deferred charges 45,622 8,018 Sub-total 2,845,011 2,737,421 | | | |
| Deferred charges 45,622 8,018 Sub-total 2,845,011 2,737,421 | | - | · · · · · · · · · · · · · · · · · · · |
| Sub-total | | * | |
| | · · · · · · · · · · · · · · · · · · · | | |
| | | | |

The accompanying notes are an integral part of these financial statements.

BALANCE SHEETS (Continued) JUNE 30, 1999 and 2000

| | June 30, | |
|--|------------|------------|
| | 2000 | 1999 |
| | NT\$ | NT\$ |
| | (in the | ousands) |
| Liabilities & Stockholders' Equity | | |
| Current Liabilities | | |
| Notes issued under repurchase | | |
| Agreements (Note 2) | 2,928,337 | 1,751,066 |
| Accrued expenses | 320,702 | 229,848 |
| Accrued tax | 279,880 | 88,837 |
| Commissions payable | 298,486 | 303,586 |
| Indemnity payments payable | 6,944,375 | 3,225,916 |
| Reinsurance indemnity payable | 230,508 | 201,961 |
| Payables to other insurers | 496,169 | 836,483 |
| Other payable | 4,245,191 | 2,550,714 |
| Advance receipts | 346,928 | 371,878 |
| Sub-total | 16,090,576 | 9,560,289 |
| Long-term Liabilities | | |
| Reserve for land value increment tax | 9,264 | 9,263 |
| Accrued pension liabilities | 0 | 15,821 |
| Sub-total | 9,264 | 25,084 |
| Other Liabilities | | |
| Reserve for operations (Note 12) | 16,201,295 | 15,200,791 |
| Guarantee deposits | 54,172 | 54,496 |
| Reinsurance liability reserve received | 866,343 | 1,147,132 |
| Sub-total | 17,121,810 | 16,402,419 |
| Total liabilities | 33,221,650 | 25,987,792 |
| Stockholders' Equity | | |
| Common stock (Note 13) | 17,239,374 | 15,672,158 |
| Undistributed stock dividends | 358,390 | 1,567,216 |
| Capital surplus (Note 14) | • | |
| Additional paid-in capital | 9,924,948 | 10,183,539 |
| Gains on disposal of fixed assets | 79,954 | 79,933 |
| Assets revaluation surplus | 1,104 | 1,104 |
| Retained earnings (Note 15) | | , , |
| Legal reserve | 1,448,802 | 1,188,643 |
| Special reserve | 1,014,323 | 0 |
| Unassigned retained earnings | 2,615,562 | 3,644,448 |
| Equity adjustment: | , , | , , |
| Unrealized long-term equity investments loss | (350,698) | (946,218) |
| Accumulated translation adjustments | (1,018) | (171) |
| Sub-total | 32,330,741 | 31,390,652 |
| Total Liabilities and Stockholders' Equity | 65,552,391 | 57,378,444 |

The accompanying notes are an integral part of these financial statements.

INCOME STATEMENTS JUNE 30, 1999 and 2000

June 30, 2000 1999 NT\$ NT\$ Operating Revenues (in thousands) Interest income 656,274 708,599 Gross Premiums 8,811,605 9,866,573 1,338,010 Reinsurance commission income..... 1,153,593 Reinsurance recovery and subrogation..... 2,561,398 2,953,938 Unearned premiums reserve release 6,210,911 5,368,726 Special reserve release 194,770 93,795 IBNR reserve release 156,443 99.078 Fee income. 4,412 697 Gain on long-term equity investments..... 1,046,542 149.974 149,786 Gain on real-estate investments..... 579,208 1,787,153 Other operating income 21,769,975 22,121,510 Sub-total Operating Costs Interest expenses (63,372)(36,386)Reinsurance premiums ceded..... (4,670,266)(4,844,660)Commissions expenses (816.307)(880,508)(5,079,346)Loss incurred (5,279,148)(6,209,721)Provision for unearned premiums reserve..... (6,101,304)Provision for special reserve (423,403)(477,983)Provision for IBNR reserve (141,871)(120,492)Processing fees (52,394)(88,427)Loss on long-term equity investments..... (965)(4.892)Other operating costs (495,937)(553,452)Sub-total..... (17,953,582)(18,387,252)3,816,393 Operating Gross Profit 3,734,258 Operating Expenses Marketing expenses..... (1,365,513)(1,464,343)Administrative and general expenses..... (251,029)(261,143)Operating Income..... 2,199,851 2,008,772 Non-operating Revenues .Gain on asset disposal..... 304 27 24,599 171,844 Other income 24,903 171,871 Sub-total..... Non-Operating Expenses (61.799)(239)Loss on foreign exchange..... Loss on asset disposal (244)(63)(32,835)(15,388)Other expenses (94,878)(15,690)Sub-total..... Income from continuing operations before Income Taxes..... 2,164,953 2,129,876 Income taxes (Notes 2,16) (190,000)(210,000)1,939,876 1,954,953 Net income after taxes

The accompanying notes are an integral part of these financial statements.

\$1.13

\$1.13

Earnings per share (Note 17).....

| | Common | Undistributed | | | | Unappropriated |
|--|------------|----------------|-----------------|---------------|-----------------|-------------------|
| Summary | Stock | Stock Dividend | Capital Surplus | Legal Reserve | Special Reserve | Retained Earnings |
| Balance on January 1,1999 | 15,672,158 | 1 | 11,675,070 | 1,054,478 | | 2,763,990 |
| Appropriations and distributions for 1998 | | | | | | |
| Legal reserve | ı | ì | 1 | 134,165 | ! | (134,165) |
| Stock dividends | ı |) | 1 | 1 | I | (783,608) |
| Stock dividends from capital surplus | 1 | 1,410,494 | (1,410,494) | 1 | I | 1 |
| Undistributed stock dividends from retained earnings | l | 156,722 | 1 | 1 | ı | (156,722) |
| Accumulated translation adjustments. | 1 | 1 | I | | l | 1 |
| Unrealized loss in long-term equity investments | | 1 | l | I | 1 | |
| Net income after Tax for the period ended June 30, 1999. | l | 1 | l | 1 | ı | 1,954,953 |
| Balance on June 30,1999 | 15,672,158 | 1,567,216 | 10,264,576 | 1,188,643 | 0 | 3,644,448 |
| Balance on January 1, 2000 | 17,239,374 | 0 | 10,264,597 | 1,188,643 | 0 | 4,291,086 |
| Appropriations and Distributions for 1999 | | | | | | |
| Legal reserve | | | | 260,159 | | (260,159) |
| Special Reserve | | | | | 1,014,323 | (1,014,323) |
| Cash dividends | • | | | | | (2,241,118) |
| Employee bonuses-undistributed stock | | 13,603 | | | | (13,603) |
| Undistributed stock dividends from capital surplus | | 258,591 | (258,591) | | | |
| Undistributed stock dividends | | 86,197 | | | | (86,197) |
| Accumulated translation adjustments | | | | | | |
| Unrealized loss in long-term equity investment | | | | | | |
| Net income after tax for the period ended June 30, 2000 | | | | | | 1,939,876 |
| Rounding difference | | Ξ | | | | |
| Balance on June 30, 2000 | 17,239,374 | 358,390 | 10,006,006 | 1,448,802 | 1,014,323 | 2,615,562 |

STATEMENTS OF CASH FLOWS JUNE 30, 1999 and 2000

| | June 30, | | |
|--|-------------|-------------|--|
| | 2000 | 1999 | |
| | NT\$ | NT\$ | |
| • | (in tho | usands) | |
| Cash Flows from Operating Activity expense | | • | |
| Net Income for the Year | 1,939,876 | 1,954,953 | |
| Adjustments | | | |
| Fixed Assets transfer to other expense | 711 | 0 | |
| Loss on bad debt. | 118,119 | 80,967 | |
| Depreciation expenses | 70,874 | 70.597 | |
| Provision for reserve for operations | 6,774,996 | 6,699,779 | |
| Unearned premiums reserve release | (6,210,911) | (5,368,726) | |
| Valuation gain on short-term investments | 0 | (136,250) | |
| Special reserve release | (93,795) | (194,770) | |
| IBNR reserve release | (156,443) | (99,078) | |
| Gain on disposal of long-term investments | (150,445) | (1,046,542) | |
| Valuation Loss on short-term investments | 16,278 | (1,040,542) | |
| | 244 | 62 | |
| Loss on disposal of assets | (304) | (27) | |
| Gain on disposal of assets | ` , | ` , | |
| Unrealized gain in long-term equity investments | 965 | 4,892 | |
| Notes receivables (increase) decrease | 40,452 | (111,244) | |
| Accrued income(increase)decrease | (94,198) | (24,142) | |
| Premiums receivables(increase)decrease | (559,213) | 187,949 | |
| Reinsurance recovery receivables (increase) decrease | 1,741,549 | 41,239 | |
| Due from other insurers (increase) decrease | (420,081) | 270,071 | |
| Other receivables(increase)decrease | (1,174,240) | 151,122 | |
| Prepayments(increase)decrease | 7,444 | 93,530 | |
| Deferred tax assets(increase) decrease | 11,699 | 36,904 | |
| Overdue receivables(increase) decrease | (23,447) | (149,883) | |
| Accrued expenses increase (decrease) | (153,929) | (156,190) | |
| Accrued tax increase(decrease) | 100,639 | (30,987) | |
| Commission payable increase (decrease) | 42,093 | 23,878 | |
| Indemnity payments payable increase(decrease) | (1,922,497) | 273,044 | |
| Reinsurance indemnity payable increase(decrease) | 16,432 | 141,704 | |
| Other payable increase(decrease) | 2,905,882 | 639,012 | |
| Advance receipts increase(decrease) | 26,410 | (966,465) | |
| Deferred income tax liability-current increase (decrease) | 576 | 0 | |
| Accrued pension liability | 0 | 15,821 | |
| Provision of unpaid claim reserve for reported claim increase | 214,974 | 149,802 | |
| Deferred income tax liability-current increase (decrease) | 0 | 1,423 | |
| Net Cash Provided by (Used in) Operating Activities | 3,221,155 | 2,552,445 | |
| Cash Flows from Investment Activities | 3,221,133 | 2,332,443 | |
| | (1.222.465) | (1.460.030) | |
| Short-term investments(increase)decrease | (1,272,465) | (1,469,838) | |
| Proceeds from disposal of long-term investments | 0 | 1,282,042 | |
| Acquisition of long-term investments | (905,755) | (390,673) | |
| Disposal of fixed assets | 1,432 | 244 | |
| Acquisition of fixed assets | (69,364) | (29,620) | |
| Deferred charges(increase)decrease | (448) | (116) | |
| Acquisition of non-operating assets | 34,808 | 19,512 | |
| Guarantee deposits paid (increase)decrease | 3,319 | 9,431 | |
| Provision for reinsurance liability reserve (increase)decrease | 73 | 107 | |
| Net Cash Used in Investing Activities | (2,208,400) | (578,911) | |

STATEMENTS OF CASH FLOWS June 30, 1999 and 2000 (continued)

| | June | 30, |
|---|-------------|------------|
| _ | 2000 | 1999 |
| | NTS | NTS |
| | (in thou | sands) |
| Cash Flows from Financing Activities | | • |
| Notes issued under repurchase agreement increase (decrease) | 2,665,149 | 1,045,482 |
| Received from liability reserve increase (decrease) | (34,647) | (44,531) |
| Provision for other liability reserve increase (decrease) | 22,606 | 27,135 |
| Received from guarantee deposit increase (decrease) | 2,737 | 2,809 |
| Receivable from reinsurance liability reserve increase (decrease) | (153,065) | (130,425) |
| Issued cash dividend | (2,241,118) | (783,608) |
| Net cash provided by financing activities | 261,662 | 116,842 |
| Increase (decrease) in cash and cash equivalents | 1,274,417 | 2,090,376 |
| Cash and cash equivalents at the beginning of year | 13,158,875 | 14,826,538 |
| Cash and cash equivalents at the end of year | 14,433,292 | 16,916,914 |
| Supplemental Disclosure of Cash Flows Information | | |
| Interest paid (excluding capitalized interest) | 63,372 | 36,386 |
| Income tax paid | 80,853 | 206,439 |

NOTES TO FINANCIAL STATEMENTS (Expressed in New Taiwan Dollars Unless Otherwise Stated)

1. ORGANIZATION OF BUSINESS

Fubon Insurance Co., Ltd. (the "Company") was incorporated on April 17, 1961 in Taiwan, pursuant to the provision of the Company Law (the "Company Law") of the Republic of China ("ROC"). The Company primarily engages in the business of property and casualty insurance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Cash and Cash Equivalents

Cash equivalents represent all highly liquid debt instruments, such as treasury bills, commercial paper and bank acceptance purchases with a maturity period of three months or less, and other highly liquid investments with insignificant interest rate risk.

(2) Short-Term Investments

Marketable equity securities are recorded at cost when acquired and stated at the lower of cost or market value on the balance sheet date. Stock dividends are treated as an increase in the number of shares. The cost of marketable equity securities sold is determined by the weighted-average cost method.

Investment fund certificates are recorded at cost when acquired and stated at the lower of cost or market value on the balance sheet date. The cost of investment fund certificates sold is determined by the weighted-average cost method.

Short-term notes are recorded at cost when acquired and stated at the lower of cost or market value on the balance sheet date, if the market value is available. The cost of these notes, interest income, and gain or loss either due to maturity or resulting from the sale of notes are determined by the specific identification method.

Bonds and convertible bonds are recorded at cost when acquired and stated at the lower of cost or market value on the balance sheet date. The cost of these bonds sold is determined by the specific identification method.

(3) Allowance for Bad and Doubtful Debts

Allowance for bad and doubtful debts on notes receivables, premiums receivables, accounts overdue and other receivables is determined based on the aging of outstanding balances of such accounts and the past experience of the Company.

(4) Bonds Attached With Repurchase or Resale

The bonds with repurchase or resale option are bonds for which attributes of risk and

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan Dollars Unless Otherwise Stated)

reward are judged by their real transactions. It will be considered as the financing action if the reward or risk is attributed to seller side, while it will be considered as trading action if the reverse is the case.

If transaction under resale agreement meets the financing criterion, the deal should be recorded at trading price on trading date, and listed under the item as assets.

If transaction under repurchase agreement meets the financing criterion, the deal should be recorded at trading price on trading date, and listed under the item as liabilities.

(5) Long-Term Investments

Investments in (i) listed shares, which the Company's board of directors resolves to hold for more than one year, or (ii) unlisted shares are recorded as long-term equity investments. If an equity investment in listed shares is less than 20% of the investee's common stock and the Company's management does not exercise significant influence over such investee, this equity investment is stated at the lower of cost or market value, and any provision for diminution in value is treated as unrealized loss and is accounted as an adjustment to stockholders' equity. If an equity investment in unlisted shares is less than 20% of the investee's common stock and the Company's management does not exercise significant influence over such investee, such investment is stated at cost, and any provision for a permanent diminution in value is treated as a non-operating loss of the period and the investment is reported at cost less provision. Stock dividends are accounted as an increase in the number of shares held.

If an equity investment is more than 20% of the investee's common stock and the Company's management exercises significant influence over such investee, this equity investment is accounted for using the equity method. Under the equity method, if the difference between investment cost and underlying equity in net assets comes from discrepancies between the book value of assets and their fair market values, then an investor company shall offset all unamortized differences when conditions making such over- under-valuation are no longer present. If the source of the difference between the investment cost and underlying equity in net assets cannot be identified, such difference shall be amortized for a period between 5 and 20 years.

If the investee company issues new shares and original shareholders do not purchase new shares proportionately, then the investment percentage, and therefore, the equity in net assets for the investment, will be changed. Such difference shall be used to adjust the additional paid-in capital and the long-term investment accounts. If the adjustment stated above is to debit the additional paid-in capital account and the book balance of additional paid-in capital from long-term investments is not enough to be offset, then the difference shall be debited to the retained earnings account.

The cost of investments sold is determined by the weighted-average cost method.

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan Dollars Unless Otherwise Stated)

(6) Investments in Real Estate

Investments in real estate are stated at cost when acquired. The cost of an investment in real estate and its corresponding revaluation surplus and accumulated depreciation are written off upon retirement or disposal. The gain or loss resulting from disposal of an investment in real estate is classified as an operating gain or loss.

Depreciation is calculated by the straight-line method based on the "Estimated Useful Life of Fixed Assets Table" published by the Executive Yuan (the "Government") of the Republic of China ("ROC") government. After the end of its estimated useful life, if a depreciable real estate is still in use, depreciation is determined according to its newly estimated remaining useful life.

(7) Fixed Assets

Fixed assets are recorded at cost when acquired. Material improvements, additions and renewals, which can extend an asset's economic useful life or increase its value, are capitalized when incurred, while expenditures related to regular maintenance and repair are expensed in the profit and loss account.

The cost of a fixed asset and its corresponding revaluation surplus and accumulated depreciation are written off upon retirement or disposal. The gain or loss resulting from such a disposal is recorded as a non-operating gain or loss. The gain (after tax) from such a disposal is transferred to the capital surplus account in the year when it arises.

Fixed assets are depreciated in accordance with the straight-line method under the "Estimated Useful Life of Fixed Assets Table" published by the Executive Yuan of the Government. After the end of its estimated useful life, if a depreciable asset is still in use, depreciation is determined according to its newly estimated remaining useful life.

(8) Deferred Charges

Deferred charges of the Company are stated at cost and amortized over three years in accordance with the straight-line method.

(9) Insurance Premium Revenues and Expenses

The gross premiums of direct insurance are recognized as revenues when the policy is issued. In general, reinsurance premiums assumed and reinsurance commission expenses are recognized upon assumption of reinsurance, and claim expenses for assumed reinsurance policies are recognized when being notified to make such claim payments, and at the end of each quarter, adjustments to such recognition are made based on past experience. Other underwriting expenses are estimated and recorded at the end of each quarter.

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan Dollars Unless Otherwise Stated)

(10) Pension Plan (and its Reserve)

In April 1998, the Company has adopted the new pension plan due to the application of labor law standards, which applied to all employees.

The Company set up its Labor Pension Fund Committee and Pension Policy in 1988. Pursuant to the Regulations Governing Labor Pension Reserves and Management Acts of the ROC, the Company contributes 8.0% of total salaries and wages per month for the pension reserve and deposits these funds in an independent bank account. Since 1995, the Company has followed the requirements prescribed in the Statement of Financial Accounting Standards No. 18, entitled "Accounting for Pensions." Based on an actuarial report, only the minimum pension liability was required to be recognized and disclosed in 1995. In addition, net periodic pension costs are valued on an actuarial basis, and the funding status of the pension fund has been disclosed since 1996.

(11) Foreign Currency Transactions and Accounts

The Company records all transactions in New Taiwan dollars. In accordance with the Statement of Financial Accounting Standards No. 14, entitled "Accounting for Foreign Currency Transactions," all foreign currency transactions (except forward contracts) are recorded in New Taiwan dollars using the spot rate on the transaction date. All assets and liabilities stated in foreign currencies are translated into New Taiwan dollars at the exchange rate on the balance sheet date. Any gain or loss resulting from the translation is recognized as a non-operating gain or loss, except for long-term equity investments for which such a gain or loss is reported as "Accumulated Translation Adjustments" in statements of changes in stockholders' equity.

(12) Estimated Income Tax

In 1995 the Company adopted the provisions of Statement of Financial Accounting Standards No. 22, "Accounting for Income Taxes," for inter-period and intra-period tax allocations. Temporary differences of pre-tax amounts that give rise to taxable amount in a future period are classified as deferred tax liabilities, and temporary differences of pre-tax amounts that give rise to deductible amounts are classified as deferred tax assets. Furthermore, the Company is required to reduce deferred tax assets by a valuation allowance if some portion or all of the deferred tax assets will not be realized.

A deferred tax liability or asset should, according to the classification of its related liability or asset, be classified as current or non-current. However, if a deferred tax liability or asset can't be related to a liability or asset in the financial statements, then it should be classified as current or non-current based on the expected length of time before it is settled or recovered.

Prior year's income tax adjustment, if it is a change in an accounting estimate, then

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan Dollars Unless Otherwise Stated)

should be recorded as an adjustment of current year's income tax expense.

(13) Capital Expenditure and Expenses

Expenditure is capitalized and amortized over its useful life if it involves a significant amount and benefits future periods. Otherwise, it is expensed in the year of expenditure.

3. CHANGES IN ACCOUNTING PRINCIPLES AND THEIR EFFECT: None

4. CASH AND CASH EQUIVALENTS

| | June 30, | |
|--|----------------|----------------|
| | 2000 | 1999 |
| Cash on hand | 3,975,831 | 6,477,558 |
| Cash in banks | 5,025,406,856 | 7,647,386,495 |
| Transferable certificates of time deposits | 3,480,000,000 | 4,827,657,937 |
| Cash equivalents (1) | 5,935,641,186 | 4,437,892,156 |
| Less: Guarantee deposits (2) | (11,731,600) | (2,500,000) |
| Total | 14,433,292,273 | 16,916,914,146 |
| Interest rate | 4.75%-5.60% | 4.80%-6.75% |

- (1) Cash equivalents are bank acceptances and commercial paper which can be cashed within three months.
- (2) Please refer to Note 19 for further details.

5. SHORT TERM INVESTMENTS

| | Ju | ne 30, |
|--------------------------------------|-----------------|-----------------|
| | 2000 | 1999 |
| Share certificates (ordinary shares) | 9,727,094,526 | 7,994,394,897 |
| Corporate bonds | 752,486,430 | 1,672,578,724 |
| Financial debentures | 239,735,485 | 336,962,671 |
| Short-term equity securities | 2,837,100,173 | 2,598,202,597 |
| Government bonds | 5,835,898,913 | 4,060,316,616 |
| Overseas investments | 685,158,303 | 989,243,181 |
| Sub-total | 20,077,473,830 | 17,651,698,686 |
| Less: Guarantee deposits | (2,685,936,574) | (2,449,574,847) |
| Allowance for valuation loss | (424,901,722) | (634,094,430) |
| Total | 16,966,635,534 | 14,568,029,409 |

(1) Please refer to Note 19 for further details.

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan Dollars Unless Otherwise Stated)

6. NOTES AND PREMIUMS RECEIVABLES — NET

(1) Notes Receivables

| | June | 30, |
|--|---------------|---------------|
| _ | 2000 | 1999 |
| Notes receivables | 1,186,510,912 | 1,199,601,607 |
| Less: Allowance for bad and doubtful debts | (79,436,258) | (16,037,065) |
| Net | 1,107,074,654 | 1,183,564,542 |

(2) Premiums Receivables

| | June | 30, |
|--|---------------|---------------|
| | 2000 | 1999 |
| Premiums receivables | 2,250,892,936 | 2,083,742,879 |
| Less: Allowance for bad and doubtful Debts | (88,046,853) | (20,346,434) |
| Net | 2,162,846,083 | 2,063,396,445 |

7. REINSURANCE RECOVERY RECEIVABLES

Reinsurance recovery receivables are the claims for which, when the reinsurance loss incurred, the Company can receive from other reinsurance companies according to the ratio of reinsurance.

8. MORTGAGE LOANS—NET

Mortgage loans as of June 30, 2000 and 1999 are summarized below:

| | June 30, | |
|--|--------------|--------------|
| | 2000 | 1999 |
| Mortgage loans | 164,000,000 | 84,000,000 |
| Less: Allowance for bad and doubtful debts | (14,694,970) | (11,506,290) |
| Net | 149,305,030 | 72,493,710 |

The loan rates were 5%-9.25% and 9.25% as of June 30, 2000 and 1999.

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan Dollars Unless Otherwise Stated)

9. LONG-TERM INVESTMENTS

(1) Equity

| | Jui | ıe 30, |
|--|---------------|--------------------------|
| Investee | 2000 | 1999 |
| A. Under the equity method: | | |
| 1. Fubon Venture Capital Corp | 97,926,800 | 85,480,200 |
| 2. Sino Star Venture Capital Co., Ltd. | 100,421,222 | 0 |
| 3. Under the cost method: | | |
| 1. Central Reinsurance Corp | 4,999,500 | 4,999,500 |
| 2. WK Technology Fund | 74,750,000 | 74,750,000 |
| 3. Taiwan Aerospace Corp. | 65,528,150 | 65,528,150 |
| 4. China Trust Venture Capital | 100,000,000 | 100,000,000 |
| 5. Arco Communication Co., Ltd. | 9.250.000 | 0 |
| 6. Jib-haw Industrial Co., Ltd. | 15,000,000 | 15,000,000 |
| 7. Pacific Semiconductor Manufacturing Co. | 0 | 66,180,000 |
| 8. Taiwan Da-Long Industrial Cdy Ltd. | 19.000.000 | 0 |
| 9. China Alliance Venture Fund | 120,000,000 | 100,000,000 |
| 10. Win Win Venture Capital Co., Ltd. | 69,680,000 | 69,680,000 |
| 11. Pacific Cellular Corp. | 541,675,630 | 541,675,630 |
| 12. Teng Feng Venture Capital Investment Corp. | 50,000,000 | 50,000,000 |
| 13. Kuo Chiao Venture Capital Investment Corp. | 60,000,000 | 60,000,000 |
| 14. Preferred Stock of Texas Instrument Acer Inc. | 0,000,000 | 200,000,000 |
| 15. TECO Electric & Machinery Co., Ltd. | 663,274,643 | 663,274,643 |
| | 21,564,410 | |
| 16. Sampo Corporation | 30,000,000 | 21,564,410 30,000,000 |
| 17. Sharp CB | | |
| 18. Chin Fu Co., Ltd. | 456,858,693 | 456,858,693 |
| 19. Hsin Yu Energy Development Co., Ltd. | 60,000,000 | 60,000,000 |
| 20. A-Trend Technology Co., Ltd. | 347,666,666 | 347,666,666 |
| 21. FAT Venture Capital Co., Ltd. | 50,000,000 | 50,000,000 |
| 22. Jen Hsin Securities Co., Ltd. | 15,000,000 | 15,000,000 |
| 23. Primus Technology Fund | 54,000,000 | 54,000,000 |
| 24. Yi Hua Venture Capital Investment Corp. | 30,000,000 | 30,000,000 |
| 25. Global Synthetic Securities Co., Ltd. | 451,035,000 | 451,035,000 |
| 26. Taiwan High Speed Rail Co., Ltd | 1,155,000,000 | 925,000,000 |
| 27. Fubon Commercial Bank Co., Ltd. | 557,731,427 | 464,364,381 |
| 28. Fubon Securities Co., Ltd. | 1,279,323,642 | 1,122,619,111 |
| 29. Chin Tau Electronic Co., Ltd | 85,000,000 | 85,000,000 |
| 30. Tai Mao Development Co., Ltd | 50,400,000 | 50,400,000 |
| 31. Kuoyang Const. Co., Ltd | 398,239,200 | 737,480,000 |
| 32. Master Link Security Investment Trust Enterprise | 57,000,000 | 57,000,000 |
| 33. Pacific Venture Capital Co., Ltd | 41,500,000 | 25,000,000 |
| 34.Quanta Display Inc. | 75,000,000 | 0 |
| 35. Hann Star Display Corp. | 69,972,000 | 0 |
| 36. Acer Display Technology Inc. | 130,000,000 | 0 |
| 37. Taiwa Fixed Network Co., Ltd | 1,300,000,000 | 0 |
| 38. Fu Yu Vnture Capital Investment Co., Ltd | 30,000,000 | 0 |
| 39. Preferred Stock of Texas Instrument Acer. Inc. | 31,104,000 | 0 |
| Sub-total | 8,767,900,983 | 7,079,556,384 |
| Allowance for long-term equity investments loss | (350,697,791) | (946,217,759) |
| Total | 8,417,203,192 | 6,133,338,625 |

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan Dollars Unless Otherwise Stated)

- (A) The Company recognized investment loss \$965,000 and \$4,892,000, respectively, as of June 30, 2000 and 1999 for long-term investment in equity securities under the equity method. The investment revenue or loss was based on the investee company's CPA audited financial statements.
- (B) Equity method is adopted for the investments in Fubon Venture Capital Corp. and Sinostar Venture Capital Inc., in which the Company holds more than 20% of the investee's voting shares. The cost method is used for all other long-term investments.
- (C) Investments in TECO Electric & Machinery Co., Ltd., Chin Fu Co., Ltd., Sampo Corp., Fubon Commercial Bank Co., Ltd., Fubon Securities Co., Ltd. and Kuoyang Const. Co., Ltd., are intended to be held for a long period of time and had been approved by the board of directors. These investments are recorded as long-term investments.
- (D) On April 26, 2000, the Company invested \$500,000,000 for 50,000,000 ordinary shares, with \$10 par value per share in Taiwan Fixed Network Co., Ltd.
- (E) On June 13, 2000 the Company invested \$230,000,000 for 23,000,000 ordinary shares with \$10 par value per share in Taiwan High Speed Rail Co., Ltd.
- (F) The Company sold 18,550,000 shares of Pacific Cellular Corp. on May 20, 1999 to Daiwa Singapore Ltd., Nippon Investment Financial Co., Ltd. And NIF Taiwan Venture Limited. The proceeds of sale were \$1,060,900,000 and gain on disposal of investment was \$872,220,000.
- (2) Real Estate Investments

| _ | June 30, 2000 | | | |
|--------------------------|------------------------|---------------------|------------------------|-----------------|
| | | Revaluation . | Accumulated | |
| | Cost | Surplus | Depreciation | Net Value |
| Land | \$3,378,631,389 | \$18,330,870 | \$ 0 | \$3,396,962,259 |
| Buildings | <u>2,751,283,367</u> | 0 | (322,450,912) | 2,428,832,455 |
| Sub-total | 6,129,914,756 | 18,330,870 | (322,450,912) | 5,825,794,714 |
| Construction in progress | 2,814,444 | 0 | 0 | 2,814,444 |
| Total | <u>\$6,132,729,200</u> | <u>\$18,330,870</u> | <u>(\$322,450,912)</u> | \$5,828,609,158 |

| _ | June 30, 1999 | | | | |
|-----------|-------------------------|---------------------|-----------------|---------|------------------------|
| | Revaluation Accumulated | | | | |
| | Cost | Surplus | Depreci | ation | Net Value |
| Land | \$3,255,479,557 | \$18,330,870 | \$ | 0 | \$3,273,810,427 |
| Buildings | <u>2,684,661,304</u> | 0 | (264,6 | 79,208) | <u>2,419,982,096</u> |
| Total | <u>\$5,940,140,861</u> | <u>\$18,330,870</u> | <u>(\$264,6</u> | 79,208) | <u>\$5,693,792,523</u> |

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan Dollars Unless Otherwise Stated)

- A. Depreciable assets and land were revalued on December 31, 1976. Total revaluation surplus after tax is \$31,360,000 and \$22,100,000, respectively, and is recorded as capital surplus. As of June 30, 2000, \$21,000,000 of the revaluation surplus had been transferred to capital stock.
- B. As of June 30, 2000, the rental income for the next five years is summarized as follows:

| <u>Years</u> | Amounts (In thousands) |
|----------------------------|------------------------|
| July 1, 2000—June 30, 2001 | \$222,306 |
| July 1, 2001—June 30, 2002 | 63,917 |
| July 1, 2002—June 30, 2003 | 18,894 |
| July 1, 2003—June 30, 2004 | 4,738 |
| July 1, 2004—June 30, 2005 | <u>1,056</u> |
| Total | <u>\$310,911</u> |

10. FIXED ASSETS

| | | June 30, 2000 | |
|---|---|---|---|
| | | Accumulated | |
| | Cost | Depreciation | Net Value |
| Land | \$600,549,646 | \$0 | \$600,549,646 |
| Buildings | 1,087,735,319 | (228,418,422) | 859,316,897 |
| Transportation equipment | 78,619,803 | (43,937,497) | 34,682,306 |
| Other equipment | 369,034,583 | (269,814,936) | 99,219,647 |
| Sub-total | 2,135,939,351 | (542,170,855) | 1,593,768,496 |
| Construction in progress | 89,520,000 | 0 | 89,520,000 |
| Total | \$2,225,459,351 | (\$542,170,855) | <u>\$1,683,288,496</u> |
| | | | |
| | | June 30, 1999 | |
| | | June 30, 1999 Accumulated | |
| | Cost | , | Net Value |
| Land | Cost \$623,950,523 | Accumulated | Net Value \$623,950,523 |
| Land Building | | Accumulated Depreciation | |
| | \$623,950,523 | Accumulated Depreciation \$0 | \$623,950,523 |
| Building Transportation equipment | \$623,950,523 1,099,344,565 | Accumulated Depreciation \$0 (200,368,493) | \$623,950,523 898,976,072 |
| Building | \$623,950,523 1,099,344,565 75,277,141 | Accumulated Depreciation \$0 (200,368,493) (35,417,820) | \$623,950,523 898,976,072 39,859,321 |
| Building Transportation equipment Other equipment | \$623,950,523 1,099,344,565 75,277,141 350,632,790 | Accumulated Depreciation \$0 (200,368,493) (35,417,820) (229,771,417) | \$623,950,523 898,976,072 39,859,321 120,861,373 |

Fixed assets and real estate investments are insured and premium of \$2,649,660,000 and \$2,535,300,000 are paid as of June 30, 2000 and 1999, respectively.

11. OVERDUE RECEIVABLES

| | June 30, | |
|--|---------------|---------------|
| | 2000 | 1999 |
| Overdue receivables | \$178,207,288 | \$243,177,980 |
| Less: Allowance for bad and doubtful debts | (178,207,288) | (81,151,750) |
| Total | \$ 0 | \$162,026,230 |

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan Dollars Unless Otherwise Stated)

12. RESERVE FOR OPERATIONS & LIABILITIES

| | June 30, | |
|---|------------------|------------------|
| | 2000 | 1999 |
| Unearned premium reserve | \$7,871,829,550 | \$7,716,513,924 |
| Special reserve | 5,770,751,905 | 5,330,515,613 |
| Reserves for claims | 2,131,161,727 | 1,771,383,398 |
| Other liability reserve | 427,551,393 | 378,599,688 |
| Sub-total | 16,201,294,575 | 15,197,012,623 |
| Deferred income tax liabilities-non-current | 0 | 3,778,523 |
| Total | \$16,201,294,575 | \$15,200,791,146 |

Reserve for operations includes the following reserves:

- (1) Unearned Premiums Reserve
- A. According to the Implementation Rules of Insurance Law, the unearned premiums reserve is determined by multiplying total retained gross premiums for each policy by a prescribed rate.
- B. Pursuant to a memorandum, issued by the Ministry of Finance on October 29, 1994, entitled "Accounting Treatment of Mandatory Third-Party Liability Automobile Insurance," the provision for unearned premiums reserve in relation to mandatory third-party liability motor insurance is determined by multiplying retained pure gross premiums by prescribed rate as stated in the above mentioned memo.
- (2) Special Reserve

The Company must provide provision for special reserve for each type of insurance policies according to the Insurance Law. The related provision and release of special reserve are expressed as follows:

- A. Provision of special reserve is determined by the reserve formula issued by the Ministry of Finance.
- B. If the actual claims and claims adjustment expenses for a particular type of insurance are less than an amount determined by the Ministry of Finance as the "expected" amount of claims and claims adjustment expenses for such insurance, the Company must also provide 50% of such difference as additional special reserve for such year.
- C. If the actual claims and claims adjustment expenses exceed 150% of the "expected" amount, the Company can release such difference from the special reserve.

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan Dollars Unless Otherwise Stated)

- D. The total amount of special reserve for each type of insurance at the end of any year may not exceed its net earned premiums for such year from such type of insurance; any excess amount must be released from its reserves and treated as income of the insurance company. An insurance company may set aside additional special reserves with the approval of the Ministry of Finance.
- E. For compulsory car insurance policy, additional special reserve shall be provided according to the regulations of the Ministry of Finance as follows: any remaining amount of total amount of retained earned pure premium, reinsurance commissions, incurred but not reported claims ("IBNR") reserve release and interest of prior year's special reserve after deducting total amount of retained loss incurred and provision of IBNR reserve shall be provided as additional special reserve.
- F. The provision for special reserve for compulsory car insurance must be kept in time deposits. This special reserve can only be used to cover pure premium loss.
- (3) Reserves for Claims

Reserves for claims are provided for in accordance with the memo "Insurance Industry Provision of Reserve for Indemnity" issued by the Ministry of Finance ("MOF"). Those provisions include the following:

- A. The Company, based on several factors, including historical information and circumstances surrounding each claim for each type of insurance, estimates provision of unpaid claim reserve for reported claims.
- B. Provision of IBNR reserve is determined according to earned premiums for each type of insurance in accordance with regulations issued by (MOF).
- C. Each year's provision of reserve for claims shall be released at the end of that year.
- D. According to new regulations issued by MOF in 1994, the base of computing the provision of IBNR reserve of compulsory car insurance is net earned premium.
- (4) Other liability reserve

According to the Implementation Memorandum of MOF, other liability reserve is determined by multiplying total fire payback premiums (based on an actuarial report) by a prescribed rate.

13. CAPITAL STOCK AND CAPITAL INCREMENT

(1) As of June 30, 2000, the total authorized share capital was \$17,680,000,000; paid-in share capital was \$17,239,374,310 for 1,723,937,431 ordinary shares, with \$10 par value per share.

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan Dollars Unless Otherwise Stated)

- (2) On March 14, 2000, the stockholders approved an increase of share capital by issuing 35,839,040 shares out of retained earnings, capital surplus and current period employees' bonus of \$86,196,870, \$258,590,610 and \$13,602,920, respectively. The Securities & Futures Committee approved the issuance in June 2000 and the change in paid-in share capital registration is in process.
- (3) On May 19, 1999, the stockholders approved an increase of share capital by issuing 156,721,584 shares out of retained earnings and capital surplus of \$156,721,580 and \$1,410,494,260, respectively. The Securities & Futures Committee approved the issuance in June 1999 and the change in paid-in share capital registration was completed in 1999.

14. CAPITAL SURPLUS

The Company's capital surplus details are as follows:

| | Ju | ine 30, |
|---|------------------|------------------|
| | 2000 | 1999 |
| Additional paid-in capital | \$9,924,948,335 | \$10,183,538,945 |
| Gains on disposal of fixed assets (after tax) | 79,954,288 | 79,932,735 |
| Assets revaluation surplus | 1,103,946 | 1,103,946 |
| Total | \$10,006,006,569 | \$10,264,575,626 |

The above capital surplus can only be used to cover accumulated losses or issue stock dividends and it cannot be used to distribute cash dividends. In the case of issuing stock dividends, the following restrictions apply:

- (1) Stock dividends issued out of additional paid-in capital can only be made once a year. In addition, a stock dividend must be distributed at least one year after the year in which the additional paid-in capital arises. The amount of stock dividends issued must follow the rules prescribed by the Securities and Futures Committee. The capital increment year is based on the date approved by the Ministry of Economic Affairs.
- (2) Stock dividends issued out of the revaluation surplus cannot exceed 5% of the balance of the revaluation surplus, or 5% of the issued share capital. If the revaluation surplus is used to cover accumulated losses, profits in subsequent years should be credited to the revaluation surplus after statutory distributions until the amounts previously utilized have been fully recovered.

15. RETAINED EARNINGS

(1) Legal Reserve

Pursuant to the Company Law, 10% of the annual after-tax net income of each company must be appropriated as legal reserve until the total amount of the legal reserve equals to

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan Dollars Unless Otherwise Stated)

paid-in share capital. This legal reserve can only be used to cover deficits and not for cash dividends. However, if the total accumulated legal reserve is greater than 50% of paid-in share capital, up to 50% of such excess can be capitalized upon resolution of the stockholders.

(2) Unassigned Retained Earnings

As stipulated in the Company's Articles of Incorporation, the restrictions and sequences for distributing annual net income are as follows:

- (a) Covering previous deficits;
- (b) Paying income tax;
- (c) Appropriating 10% of the remaining net income as legal reserve;
- (d) Distributing dividends;
- (e) Bonus to employees at 1% to 5% of the remaining net income; and
- (f) Appropriation of any of the remainder of the retained earnings as proposed by the board of directors and approved by the stockholders.

(3) Undistributed Retained Earnings

According to an amendment to the ROC Income Tax Law in 1998, a 10% undistributed retained earnings tax will be levied on a company's undistributed retained earnings. The undistributed retained earnings after assessment will not be taxed any more.

16. ESTIMATED INCOME TAX

(1) Income tax expenses include the following:

| June 30, | |
|---------------|---|
| 2000 | 1999 |
| \$173,313,339 | \$107,577,315 |
| 12,275,013 | 38,327,314 |
| 54,619,678 | 59,436,782 |
| (23,175,940) | 0 |
| (27,032,090) | 4,658,589 |
| \$190,000,000 | \$210,000,000 |
| | \$173,313,339 12,275,013 54,619,678 (23,175,940) (27,032,090) |

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan Dollars Unless Otherwise Stated)

(2) Deferred income tax liabilities and assets are as follows:

| | | June 30, | |
|----|--|---------------|---------------|
| | | 2000 | 1999 |
| A. | Total deferred income tax assets | \$52,420,460 | \$16,598,894 |
| | Total deferred income tax liabilities | 12,719,504 | 17,612,119 |
| B. | Components of deferred income taxes liabilities and assets resulting from temporary difference | | • |
| | Deductible temporary difference from bad debt loss | (209,681,841) | (12,671,672) |
| | Deductible temporary difference from unrealized exchange loss | 14,976,115 | (84,206,740) |
| | Taxable temporary difference from unrealized invested revenue | 0 | 48,501,370 |
| | Taxable temporary difference from recognition of pension expenses | 35,901,901 | 28,435,075 |
| C. | Deferred income tax assets-current | 3,167,918 | 14,076,141 |
| | Deferred income tax liabilities-current | (3,744,029) | (11,310,843) |
| | Net deferred income tax-current | (\$576,111) | \$2,765,298 |
| D. | Deferred income tax assets-non-current | 49,252,542 | 2,522,753 |
| | Deferred income tax liabilities-non-current | (8,975,475) | (6,301,276) |
| | Net deferred income tax-non-current | \$40,277,067 | (\$3,778,523) |

(3) Adjustments between accrued income tax and income tax for the period ended June 30, 2000 and 1999 are as follows:

| | June 30, | |
|--|---------------|---------------|
| | 2000 | 1999 |
| Accrued income tax | \$173,313,339 | \$107,577,315 |
| Deferred income tax expenses (revenue) on unrealized exchange gain | 12,275,013 | 35,150,573 |
| Deferred income tax expenses (revenue) on unrealized gain/loss | 0 | 1,435,500 |
| Deferred income tax expense on recognition of pension | 0 | 1,423,151 |
| Deferred income tax expenses on recognition of maintenance | 0 | 318,090 |
| Tax on a separate basis | 54,619,678 | 59,436,782 |
| Income tax credit | (23,175,940) | 0 |
| Adjustments on previous year's income tax | (27,032,090) | 4,658,589 |
| Total income tax expenses | \$190,000,000 | \$210,000,000 |

- (4) The Company's business income tax application has been assessed on 1997 by the tax authority.
- (5) Shareholders' dividend withholdings tax:

| | June 30, | |
|---|---------------|---------------|
| | 2000 | 1999 |
| Balance of shareholders' tax withheld account | \$878,293,981 | \$455,952,174 |

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan Dollars Unless Otherwise Stated)

| | June 30, | |
|----------------------|------------|----------|
| | 2000 | 1999 |
| | (Estimate) | (Actual) |
| Tax withholding rate | 23.06% | (a) |

- (a) According to the memorandum of No.11620 on Feb. 24, 1975 released by the MOF, the Company can't distribute the retained earnings of 1998.
- (6) The undistributed retained earnings:

| | Jur | ie 30, |
|---------------|-----------------|-----------------|
| Year | 2000 | 1999 |
| Prior to 1997 | \$482,014,100 | \$1,422,343,604 |
| After 1998 | 3,809,072,263 | 1,341,645,934 |
| Total | \$4,291,086,363 | \$2,763,989,538 |

17. EARNINGS PER SHARE

| | Jun | ie 30, |
|--|-----------------|-----------------|
| | 2000 | 1999 |
| Net income after income tax (a) | \$1,939,875,977 | \$1,954,952,506 |
| Year-end outstanding number of shares | 1,723,937,431 | 1,567,215,847 |
| Weighted average outstanding number of shares (b) | 1,723,937,431 | 1,567,215,847 |
| Adjusted weighted average outstanding number of shares (c) | 1,723,937,431 | 1,723,937,431 |
| Earnings per share (a)/(b) | \$1.13 | \$1.25 |
| Adjusted earnings per share (a)/(c) | \$1.13 | \$1.13 |

The changes of the above weighted average outstanding number of shares are shown below:

| | June 3 | <u>0, </u> |
|--|-----------------|---|
| | 2000 | 1999 |
| Shares, at the beginning of year | \$1,723,937,431 | \$1,567,215,847 |
| Capital increment out of retained earnings in 1999 | 0 | 15,672,158 |
| Capital increment out of capital surplus in 1999 | 0 | 141,049,426 |
| Total | \$1,723,937,431 | \$1,723,937,431 |

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan Dollars Unless Otherwise Stated)

18. RELATED PARTY TRANSACTIONS

(1) Related parties

| (1) Fubon Land Development Co., Ltd | The company's chairman is the company's chairman |
|---|--|
| (2) Fu-An Leasing Co., Ltd. | Affiliate |
| (3) Fubon Commercial Bank Co., Ltd | Affiliate |
| (4) Fubon Investment Services Co., Ltd | Affiliate |
| (5) Fubon Securities Co., Ltd. | Affiliate |
| (6) Fubon Securities Investment Trust Co., Ltd | The company's chairman is the second immediate family member of the company's chairman |
| (7) Tao Yin Co., Ltd | Affiliate |
| (8) Ming Tong Co., Ltd. | Affiliate |
| | |
| (9) Fubon Life Assurance Co., Ltd | The company's chairman is the second immediate family |
| | member of the company's chairman |
| (10) Fubon Securities Finance Co., Ltd | Affiliate |
| (11) Fubon Bills Finance Co., Ltd. | Affiliate |
| (12) Fubon Direct Marketing Consulting Co., Ltd | Affiliate |
| (13) Fubon Art Foundation. | The company's chairman is an immediate family member |
| | of the company's chairman |
| (14) Chung Hsing Construction Co., Ltd | The company's chairman is the company's chairman |
| (15) Fubon Future Co., Ltd | Affiliate |
| (16) Fubon Construction Management Co., Ltd. | The company's chairman is the company's chairman |
| (17) Fubon Technology Consulting Co., Ltd | Affiliate |
| (18) Fubon Culture & Education Foundation | The company's chairman is an immediate family member of the company's chairman |
| (19) Fubon Charity Foundation | The company's chairman is an immediate family member of the company's chairman |

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan Dollars Unless Otherwise Stated)

(2) Transactions with related parties

A. Premium Revenues (from related parties):

| | June | 30, 2000 |
|--|----------------|-------------|
| | Direct Written | Premiums |
| Name | Premiums | Receivables |
| (1) Fubon Land Development Co., Ltd | \$36,028 | \$19,260 |
| (2) Fu-An Leasing Co., Ltd | 13,743 | 3,974 |
| (3) Fubon Commercial Bank Co., Ltd | 23,663,234 | 2,394,752 |
| (4) Fubon Investment Services Co., Ltd | 8,946 | 4,686 |
| (5) Fubon Securities Co., Ltd | 743,569 | 661,470 |
| (6) Fubon Securities Investment Trust Co., Ltd | 72,588 | 36,984 |
| (7) Tao Yin Co., Ltd | 377,162 | 44,546 |
| (8) Ming Tong Co., Ltd | 661,479 | 126,884 |
| (9) Fubon Life Assurance Co., Ltd | 652,191 | 368,008 |
| (10) Fubon Securities Finance Co., Ltd | 78,895 | 39,798 |
| (16) Fubon Construction Management Co., Ltd. | 427 | 0 |
| Total | \$26,308,262 | \$3,700,362 |

| | June 3 | 30, 1999 |
|--|----------------|-------------|
| | Direct Written | Premiums |
| <u>Name</u> | Premiums | Receivables |
| (1) Fubon Land Development Co., Ltd | \$142,128 | \$56,702 |
| (2) Fu-An Leasing Co., Ltd | 12,847 | 1,872 |
| (3) Fubon Commercial Bank Co., Ltd | 45,233,082 | 2,242,852 |
| (4) Fubon Investment Services Co., Ltd | 7,952 | 1,136 |
| (5) Fubon Securities Co., Ltd | 1,194,341 | 231,880 |
| (6) Fubon Securities Investment Trust Co., Ltd | 108,054 | 45,402 |
| (7) Tao Yin Co., Ltd | 7,553 | 0 |
| (8) Ming Tong Co., Ltd | 321,169 | 336 |
| (9) Fubon Life Assurance Co., Ltd | 1,325,950 | 310,003 |
| (10) Fubon Securities Finance Co., Ltd | 145,618 | 52,995 |
| (14) Chung Hsing Construction Co., Ltd | 486,165 | 0 |
| (16) Fubon Construction Management Co., Ltd. | 5,498 | 0 |
| Total | \$48,990,357 | \$2,943,178 |

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan Dollars Unless Otherwise Stated)

B. Real-estate rental income (from related parties):

| | June 3 | 30, 2000 |
|---|---------------|--------------|
| | | Guarantee |
| Name | Rental Income | Deposits |
| (1) Fubon Land Development Co., Ltd | \$17,712 | \$0 |
| (3) Fubon Commercial Bank Co., Ltd | 37,944,990 | 2,504,600 |
| (5) Fubon Securities Co., Ltd | 11,021,281 | 3,896,396 |
| (6) Fubon Securities Investment Trust Co., Ltd | 1,746,176 | 523,200 |
| (7) Tao Yin Co., Ltd | 1,324,572 | 400,000 |
| (8) Ming Tong Co., Ltd | 1,324,572 | 400,000 |
| (9) Fubon Life Assurance Co., Ltd | 25,592,443 | 9,240,818 |
| (10) Fubon Securities Finance Co., Ltd | 738,478 | 440,000 |
| (11) Fubon Bills Finance Co., Ltd. | 1,213,118 | 123,304 |
| (12) Fubon Direct Marketing Consulting Co., Ltd | 5,669,612 | 1,446,800 |
| (15) Fubon Future Co., Ltd. | 3,106,860 | 948,000 |
| (18) Fubon Culture & Education Foundation | 442,860 | 0 |
| (19) Fubon Charity Foundation | 442,860 | 0 |
| Total | \$90,585,534 | \$19,923,118 |

| | June 30 | ,1999 |
|---|---------------|-----------------------|
| Name . | Rental Income | Guarantee Deposits |
| (1) Fubon Land Development Co., Ltd | \$1,342,284 | \$400,000 |
| (3) Fubon Commercial Bank Co., Ltd | 34,511,086 | 2,504,600 |
| (4) Fubon Investment Services Co., Ltd | 417,144 | 137,760 |
| (5) Fubon Securities Co., Ltd | 22,473,125 | 7,843,196 |
| (6) Fubon Securities Investment Trust Co., Ltd | 6,243,426 | 2,014,420 |
| (7) Tao Yin Co., Ltd | 1,324,572 | 400,000 |
| (8) Ming Tong Co., Ltd | 1,324,572 | 400,000 |
| (9) Fubon Life Assurance Co., Ltd | 18,264,146 | 7,225,118 |
| (11)Fubon Bills Finance Co., Ltd. | 909,136 | 123,304 |
| (12) Fubon Direct Marketing Consulting Co., Ltd | 3,449,054 | 966,000 |
| (13)Fubon Art Foundation | 286,860 | 0 |
| (15)Fubon Future Co., Ltd. | 3,040,189 | 948,000 |
| (17)Fubon Technology Consulting Co., Ltd | 42,000 | 0 |
| Total | \$93,627,594 | \$22,962,398 |

All of leases are operating leases, and there are no material differences from market prices.

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan Dollars Unless Otherwise Stated)

- C. Others:
- a. The Company had deposits in Fubon Commercial Bank Co., Ltd. of about \$2,598,100,000 as of June 30, 2000 and \$3,597,160,000 as of June 30, 1999, respectively.
- b. The Company had a group insurance policy with Fubon Life Assurance Co., Ltd. The insurance expenses were \$5,290,000 and \$5,160,000 as of June 30, 2000 and 1999, respectively.
- c. The Company had a service contract with Fubon Securities Co., Ltd. to handle share registry and underwriting of common stocks. The Company paid \$4,570,000 and \$4,400,000 services fees and \$17,760,000 and \$5,670,000 underwriting fees as of June 30, 2000 and 1999, respectively.
- d. The Company had a service contract with Fubon Investment Services Co., Ltd. to provide consultation services and paid service fees of \$2,500,000 as of June 30, 2000 and 1999 respectively.
- e. The Company had a service contract with Fubon Land Development Co., Ltd to provide consultation services and paid service fees of \$4,910,000 and building design fees of \$2,310,000 as of June 30, 2000.
- f. The Company had a service contract with Fubon Direct Marketing Consulting Co., Ltd. to provide marketing services and paid service fees of \$16,260,000 as of June 30, 2000.
- g. The Company had a service contract with Fubon Construction Management Co., Ltd. to provide services and paid service fees of \$5,130,000 as of June 30, 2000.
- h. The Company signed a co-construction contract with Fubon Land Development Co. Ltd in June 2000 to develop a piece of land in Taipei. Total estimated construction cost would be about \$600,000,000. The Company is responsible for funding 51.16% of the construction.
- i. The Company sold 5,000,000 shares of Pacific Cellular Corp. on March 1999 to Fubon Life Assurance Co., Ltd. The proceeds from sale of this investment were \$225,000,000 and gain on disposal of this investment was \$174,330,000.

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan Dollars Unless Otherwise Stated)

19. ASSETS PLEDGED

| | June | e 30, |
|-----------------------------|-----------------|-----------------|
| | 2000 | 1999 |
| Guarantee Deposits Paid | | |
| 1. Government treasury bill | \$2,685,936,574 | \$2,449,574,847 |
| 2. Time deposits | 11,731,600 | 2,500,000 |
| Total | \$2,697,668,174 | \$2,452,074,847 |

- (1) Government treasury bills deposited in The Central Bank of China as insurance guarantee required by the Insurance Law.
- (2) The pledged assets are disclosed at their net carrying values.

20. OTHER IMPORTANT MATTERS AND CONTINGENT LIABILITIES

- A. The Company had an insurance dispute with the Ju Jiang Construction Co., Ltd. In 1993 and had paid an indemnity of \$49,240,000. This case is at the Supreme Court of appeal and has not been resolved as of June 30, 2000.
- B. The Company had an insurance dispute with the Farmers Bank of China and was required to pay an indemnity of \$5,000,000. This case is at the Supreme Court of appeal and has not been resolved as of June 30, 2000.
- C. The Company had an insurance dispute with Taichung Business Bank and was required to pay an indemnity of \$18,000,000. Legal proceedings have been initiated and not have been resolved as of June 30, 2000.
- D. The Company had an insurance dispute with Taipei Seventh Credit Cooperation and was required to pay an indemnity of \$11,140,000. This case needs to be investigated and declared judicially to go back to preparation procedure.
- E. The Company had a dispute for exchanges of assets with Ms. Yan-Jan Wang. This case is at district court on trial as of June 30, 2000. The actual exchange square meters of floor assigned to Ms. Wang should wait for the final sentence of the court.
- F. The Company had an insurance dispute with the Ja-Zu Enterprise Ltd., and was required to pay an indemnity of \$36,000,000. This case is at the district court of appeal and has not been resolved as of June 30, 2000.
- G. The Company had an insurance dispute with Chulong corp., and was required to pay an indemnity of \$4,847,000. This case is at the district court of appeal and has not been resolved as of June 30, 2000.

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan Dollars Unless Otherwise Stated)

H. The Company had an insurance dispute with Zo-Lian Country Farmers association and was required to pay an indemnity of \$3,806,000. This case is at the district court of appeal and has not been resolved as of June 30, 2000.

21. SERIOUS DAMAGES: None

22. SUBSEQUENT EVENTS

Taiwan's Fubon Group and Citigroup have a formal agreement to form a strategic partnership on July 19, 2000. Please refer to Note 23 for further details.

23. OTHER IMPORTANT EVENTS

Citigroup and Taiwan's Fubon Group announce a strategic partnership to expand business in Taiwan and Asia. Citigroup will invest in each of Fubon's five financial services companies and hold 15% of the outstanding shares of interest of each company.

The proposed investment in Fubon's five businesses is estimated to be approximately NT\$23 billion (US\$750 million).

24. INFORMATION FOR INVESTMENT IN MAINLAND CHINA: None

25. PENSION RELATED INFORMATION

The interim financial statements are not required to follow the principles outlined in the statements of Financial Accounting Standards No. 18 "Accounting for Pensions".

26. FINANCIAL PRODUCTS RELATED INFORMATION

- (1) Financial derivatives related information: None
- (2) Non financial derivatives related information:

The book value of non-financial derivatives as of June 30, 2000 is almost the same as the estimated fair market value.

27. SEGMENT INFORMATION

The interim financial statements are not required to follow the principles outlined in the statements of Financial Accounting Standards No. 20 "Disclosures of Segment Financial Information".

28. RECLASSIFICATIONS

Certain amounts on the June 30, 1999 financial statements have been reclassified to conform to the June 30, 2000 presentation for comparison purposes. These reclassifications do not have a significant impact on the financial statements.

(Expressed in Inew Laiwan donars uniess otherwise stated)

Reference 1: Gross Premiums

| | | | | ר | June 30, | |
|--------------------------------|---|-------------|----------|-----------|----------------------------|---------------------|
| | | 20 | 2000 | | | 19 |
| | Direct | Reinsurance | ä | Ç | | Reinsurance |
| | Premiums | Assumed | Discount | Gross | Direct Written Premiums | Premiums Assumed |
| Motor | | | | (In t | (In thousands) | |
| Motor physical damages | | | | | | |
| insurance | 1,580,665 | 68,753 | 90,560 | 1,558,858 | 1,635,978 | 116,057 |
| insurance | 1,849,396 | 59,467 | 131,689 | 1,777,174 | 1,861,552 | 69,335 |
| liability insurance | 1,161,484 | 193,988 | 0 | 1,355,472 | 1,232,040 | 186,886 |
| party liability insurance | 416,457 | (3,514) | 21,025 | 391,918 | 1,267,289 | 269,761 |
| rance | 432,667 | 8,255 | 7.216 | 433.706 | 470.119 | 33.266 |
| | 318,692 | 0 | 2,071 | 316,621 | 367,333 | 0 |
| Long -term fire savings | | | | | | |
| insurance | 53,183 | 0 | 0 | 53,183 | 93,997 | 0 |
| Fire & allied perils insurance | 915,240 | 58,346 | 2,650 | 970,936 | 625,664 | 51,277 |
| Shop comprehensive insurance | 14,945 | 0 | 84 | 14,861 | 12,829 | 0 |
| Marine cargo: | 453.151 | 34 360 | C | 115 287 | 413 204 | 18 167 |
| Casualty: | • | 200,10 | | 110,101 | 413,534 | 40,107 |
| nsurance | 513,733 | 14,255 | 0 | 527,988 | 516,940 | 17.689 |
| Performance bond insurance | 38,856 | 2,326 | 0 | 41,182 | 42,222 | 73 |
| Other property insurance | 166'92 | 1,239 | 0 | 78,230 | 72,667 | 1,923 |
| Liability insurance | 480,280 | 19,177 | 0 | 499,457 | 377,118 | 18,520 |
| insurance | 72,860 | 0 | 0 | 72.860 | 66 634 | C |
| | | | | | | |
| Marine hull insurance | 42,653 | 1,128 | 0 | 43,781 | 39,349 | 397 |
| Fishing vessels insurance | 112,873 | 15,994 | 0 | 128,867 | 104,716 | 18,084 |
| Aviation insurance | 39,770 | 2,611 | 0 | 42,381 | 42,077 | 6,045 |
| Nuclear insurance | 0 | 16,619 | 0 | 16,619 | 0 | 11,801 |
| Fotal | 8,573,896 | 493,004 | 255,295 | 8,811,605 | 9,241,818 | 849,281 |

(Expressed in ivew Taiwan dollars unless otherwise stated)

Reference 2: Unearned Premiums Reserve

2000

June 30,

| | * | 77 | 2000 | | | |
|---------------------------------------|------------|-----------|-----------|----------------|------------|-------|
| | Balance at | | Reserve | Balance at | Balance at | |
| | Beginning | Provision | Released | the end | Beginning | Provi |
| | | • | (In t | (In thousands) | | |
| Motor: | | | | | | |
| Motor physical damages insurance. | 796,085 | 403,361 | 407,922 | 791,524 | 875,790 | 40 |
| Motor third party liability insurance | 848,163 | 532,615 | 423,171 | 957,607 | 895,854 | 423 |
| Motor compulsory third party | | | • | | | |
| liability insurance | 893,450 | 377,526 | 438,964 | 832.012 | 967.851 | 478 |
| Motorcycle compulsory third party | | | | | | |
| liability insurance | 750,698 | 634,945 | 739,173 | 646,470 | I | 61 |
| Fire: | | | | • | | |
| Fire insurance | 110,168 | 60,938 | 74,477 | 96.629 | 150.352 | 7 |
| Long-term fire insurance | 3,323,126 | 3,338,222 | 3,323,126 | 3,338,222 | 3,138,357 | 3.278 |
| Long -term fire savings insurance | 496,626 | 503,633 | 496,626 | 503,633 | 443,229 | 474 |
| Fire & allied perils insurance | 104,633 | 34,774 | 11,003 | 128,404 | 76,166 | _ |
| Shop comprehensive insurance | 12,016 | 4,986 | 4,400 | 12,602 | 12,940 | 7 |
| Marine cargo: | | | | | | |
| Marine cargo insurance | 108,614 | 58,318 | 53,972 | 112,960 | 112,321 | 5. |
| Casualty: | | | | | • | |
| Engineering insurance | 176,984 | 59,455 | 79,559 | 156,880 | 109,259 | 75 |
| Performance bond insurance | 12,865 | 4,745 | 3,871 | 13,739 | 9,164 | (. , |
| Other property insurance | 9,675 | 6,350 | 7,611 | 8,414 | 12,735 | • |
| Liability insurance | 238,025 | 120,442 | 108,934 | 249,533 | 188,968 | 108 |
| Consumer's loan credit insurance | 2,922 | 1,644 | 2,922 | 1,644 | 11.983 | |
| Other: | | | | • | | |
| Marine hull insurance | 15,039 | 9,961 | 9,245 | 15,755 | 16,042 | • |
| Fishing vessels insurance | 43,983 | 18,593 | 20,922 | 41,654 | 44,896 | 20 |
| Aviation insurance | 5,921 | 1,488 | 2,180 | 5,229 | 3,663 | |
| Nuclear insurance | 308 | 3,079 | 2,833 | 554 | 533 | • |
| Sub -Total | 7,949,301 | 6,175,075 | 6,210,911 | 7,913,465 | 7,949,301 | 6,05 |
| Provision for special reserve | (41,635) | 0 | 0 | (41,635) | (41,635) | |
| Total | 6,175,075 | 6,175,075 | 6,210,911 | 7,871,830 | 7,028,467 | 6,05 |

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan dollars unless otherwise stated)

Reference 3: Interest Income

| | June | 30, |
|---|-----------|-----------|
| _ | 2000 | 1999 |
| Interest income from bank accounts | \$148,523 | \$173,887 |
| Interest on loans | 5,100 | 7,562 |
| Interest on negotiable certificate deposits | 109,715 | 154,205 |
| Interest on government bonds | 164,027 | 109,172 |
| Interest on corporate bonds | 30,536 | 65,712 |
| Commercial paper | 29,442 | 60,460 |
| Financial debentures | 9,287 | 8,816 |
| Notes issued under repurchase agreements | 132,038 | 76,771 |
| Interest on overseas investment | 25,424 | 38,025 |
| Interest on treasury bill | 1,903 | 0 |
| Other | 279 | 13,989 |
| Total | \$656,274 | \$708,599 |

Reference 4: Other Operating Income

| | June | e 30 , |
|---------------------------------------|-------------|---------------|
| | 2000 | 1999 |
| Gain on sale of marketable securities | \$1,501,767 | \$234,717 |
| Cash dividends income | 149,191 | 287,235 |
| Gain on disposal of bills | 75 | 3,035 |
| Gain on sale of government bonds | 12,722 | 7,869 |
| Other realized gain from investment | 123,398 | 46,353 |
| Total | \$1,787,153 | \$579,209 |

Reference 5: Other Operating Costs

| | Jun | e 30, |
|---------------------------------------|-----------|-----------|
| | 2000 | 1999 |
| Loss on sale of marketable securities | \$495,937 | \$553,453 |

Reference 6: Marketing Expenses

| | June | e 30 , | |
|---------------------------------------|-------------|---------------|--|
| | 2000 | 1999 | |
| Bad debt expenses | \$118,119 | \$80,967 | |
| Depreciation (for investment purpose) | 29,704 | 28,770 | |
| Other marketing expenses | 1,217,690 | 1,354,607 | |
| Total | \$1,365,513 | \$1,464,344 | |

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan dollars unless otherwise stated)

Reference 7: Administrative & General Expenses

| | June : | 30, |
|---|-----------|-----------|
| | 2000 | 1999 |
| Land taxes | \$12,781 | \$26,557 |
| Depreciation | 41,170 | 41,827 |
| Other administrative and general expenses | 197,078 | 192,759 |
| Total | \$251,029 | \$261,143 |

Reference 8: Non Operating Revenues

| | June 3 | 30, |
|----------------------------|----------|-----------|
| | 2000 | 1999 |
| Gain on disposal of assets | \$304 | \$27 |
| Other income | 24,599 | 171,844 |
| Sub-total | \$24,903 | \$171,871 |

Reference 9: Non-Operating Expenses

| • | June 3 | 30, |
|----------------------------|----------|----------|
| _ | 2000 | 1999 |
| Loss on foreign exchange | \$61,798 | \$239 |
| Loss on disposal of assets | 244 | 63 |
| Other expenses | 32,835 | 15,388 |
| Sub-total | \$94,877 | \$15,690 |

INDEPENDENT AUDITORS' REPORT

To: Board of Directors

Fubon Insurance Co., Ltd.

We have audited the accompanying balance sheets of Fubon Insurance Co., Ltd. as of December 31, 1999 and 1998, and the related statements of income, changes in stockholders' equity, and cash flows for the years ended December 31, 1999 and 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with generally accepted auditing standards in Taiwan, Republic of China, which are substantially similar to generally accepted auditing standards in the United States of America and the regulations governing such audits. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fubon Insurance Co., Ltd. as of December 31, 1999 and 1998, and the results of its operations and its cash flows for the years ended December 31, 1999 and 1998, in conformity with ROC generally accepted accounting principles.

BDO TAIWAN UNION & CO.

February 19, 2000

BALANCE SHEETS DECEMBER 31, 1999 and 1998

| | Decem | ber 31, |
|--|------------|------------|
| | 1999 | 1998 |
| | NT\$ | NT\$ |
| Assets | (in thou | isands) |
| Current assets | | |
| Cash and cash equivalents (Notes 2, 4) | 13,158,875 | 14,826,538 |
| Short-term investments (Notes 2, 5) | 15,701,014 | 12,961,941 |
| Notes receivables (Notes 2, 6) | 1,183,728 | 1,077,304 |
| Accrued income | 265,856 | 394,346 |
| Premiums receivables (Notes 2, 6) | 1,662,104 | 2,251,102 |
| Reinsurance recovery receivables (Note 7) | 10,625,926 | 4,573,304 |
| Due from other insurers | 515,241 | 741,641 |
| Other receivables | 507,280 | 638,634 |
| Prepayments | 92,502 | 222,437 |
| Sub-total | 43,712,526 | 37,687,247 |
| Loans | | |
| Mortgage loans (Note 8) | 149,305 | 73,660 |
| Sub-total | 149,305 | 73,660 |
| Funds, Long-Term Investments, and Receivables | | |
| Long-term investments (Notes 2, 9) | 12,685,387 | 11,351,109 |
| Sub-total | 12,685,387 | 11,351,109 |
| Fixed Assets (Notes 2, 10) | | |
| Land | 600,550 | 629,923 |
| Buildings | 1,074,791 | 1,092,439 |
| Transportation equipment | 77,502 | 74,555 |
| Other equipment | 357,992 | 348,847 |
| Cost | 2,110,835 | 2,145,764 |
| Less: Accumulated depreciation | (505,991) | (427,253) |
| Construction in progress and equipment ordered | 84,500 | 13,459 |
| Sub-total | 1,689,344 | 1,731,970 |
| Other Assets | | |
| Prepayment for pensions | 35,902 | 19,512 |
| Guarantee deposits paid | 2,792,714 | 2,563,353 |
| Overdue receivables (Note 11) | 0 | 87,120 |
| Reinsurance liability reserve contributed | 8,974 | 13,562 |
| Deferred charges | 45,174 | 7,902 |
| Sub-total | 2,882,764 | 2,691,449 |
| Total Assets | 61,119,326 | 53,535,435 |
| | | |

BALANCE SHEETS (Continued) DECEMBER 31, 1999 and 1998

| _ | Decem | iber 31, |
|--|-------------|----------------|
| | 1999 | 1998 |
| | NT\$ | NT\$ |
| Liabilities & Stockholders' Equity | (in tho | usands) |
| Current Liabilities | | |
| Notes issued under repurchase | | |
| agreements (Note 2) | 263,188 | 705,604 |
| Accrued expenses | 474,631 | 386,038 |
| Accrued tax | 179,240 | 119,825 |
| Commissions payable | 256,392 | 279,708 |
| Indemnity payments payable | 8,866,872 | 2,952,873 |
| Reinsurance indemnity payable | 214,076 | 60,257 |
| Payables to other insurers | 471,676 | 538,110 |
| Other payable | 1,339,309 | 1,911,702 |
| Advance receipts | 319,943 | 1,338,343 |
| Sub-total | 12,385,327 | 8,292,460 |
| Long-term liabilities | | |
| Reserve for land value increment tax | 9,264 | 9,263 |
| Sub-total | 9,264 | 9,263 |
| Other liabilities | | |
| Reserve for operations (Note 12) | 15,684,515 | 14,029,757 |
| Guarantee deposits | 51,435 | 51,687 |
| Reinsurance liability reserve received | 1,019,408 | 1,277,557 |
| Sub-total | 16,755,358 | 15,359,001 |
| Total liabilities | 29,149,949 | 23,660,724 |
| Stockholders' equity | | |
| Common stock (Note 13) | 17,239,374 | 15,672,158 |
| Capital surplus (Note 14) | , , | |
| Additional paid-in capital | 10,183,539 | 11,594,033 |
| Gains on disposal of fixed assets | 79,954 | 79,933 |
| Assets revaluation surplus | 1,104 | 1,104 |
| Retained earnings (Note 15) | , | 7, |
| Legal reserve | 1,188,643 | 1,054,478 |
| Unassigned retained earnings | 4,291,086 | 2,763,990 |
| Equity adjustment: | , - , | -,· , • |
| Unrealized long-term equity investments loss | (1,013,902) | (1,290,784) |
| Accumulated translation adjustments | (421) | (201) |
| Sub-total | 31,969,377 | 29,874,711 |
| Total liabilities and Stockholders' equity | 61,119,326 | 53,535,435 |
| Total Intollities and Stockholders equity | 01,117,340 | |

INCOME STATEMENTS DECEMBER 31, 1999 and 1998

| | Years ended De | cember 31, |
|---|----------------|----------------|
| - | 1999 | 1998 |
| | NTS | NTS |
| Operating Revenues | (in t | housands) |
| Interest income | 1,394,889 | 1,505,369 |
| Gross Premiums | 17,595,236 | 16,740,674 |
| Reinsurance commission income | 2,448,076 | 2,553,517 |
| Reinsurance recovery and subrogation | 12,363,521 | 6,555,908 |
| Unearned premiums reserve release | 7,028,468 | 6,358,082 |
| Special reserve release | 384,423 | 233,562 |
| IBNR reserve release | 99,078 | 94,313 |
| Fee income | 4,852 | 9,168 |
| Gain on long-term equity investments | 1,056,330 | · _ |
| Gain on real-estate investments | 367,935 | 358,570 |
| Other operating income | 1,480,793 | 1,541,098 |
| Sub-total | 44,223,601 | 35,950,261 |
| Operating Cost | | |
| Interest expenses | (86,679) | (90,726) |
| Reinsurance premiums ceded | (8,445,019) | (9,065,370) |
| Commissions expenses | (1,614,972) | (1,677,168) |
| Loss incurred | (17,348,258) | (10,795,207) |
| Provision for unearned premiums reserve | (7,994,304) | (7,093,219) |
| Provision for special reserve | (757,145) | (667,560) |
| Provision for IBNR reserve | (156,443) | (99,078) |
| Processing fees | (132,660) | (67,202) |
| Loss on Long-term equity investments | (132,000) | (12,294) |
| Loss on real estate investments | | (24,512) |
| Other operating costs | (1,476,548)` | (816,604) |
| Sub-total | (38,012,028) | (30,408,940) |
| | | |
| Operating Gross Profit | 6,211,573 | 5,541,321 |
| Operating Expenses | (2.0(= ==0) | /= === o=o; |
| Marketing expenses | (2,867,570) | (2,577,829) |
| Administrative and general expenses | (570,360) | (483,338) |
| Operating Income | 2,773,643 | 2,480,154 |
| Non-operating Revenues | | |
| Gain on asset disposal | 29 | 842 |
| Other income | 437,056 | 52,149 |
| Sub-total | 437,085 | 52,991 |
| Non-operating Expenses | | |
| Loss on foreign exchange | (69,607) | (7,238) |
| Loss on asset disposal | (419) | (4,717) |
| Other expenses | (34,090) | (788,912) |
| Sub-total | (104,116) | (800,867) |
| Income from Continuing | (101,110) | (000,007) |
| Operations before Income Taxes | 3,106,612 | 1,732,278 |
| Income taxes (Notes 2, 16) | (505,000) | (390,000) |
| · · · · · · | | |
| Net income after taxes | 2,601,612 | 1,342,278 |
| Earnings per share (Notes 2,17) | \$1.51 | \$0.79 |

| Summary | Common Stock | Capital Surplus | Legal Reserve | Unappropriated Retained Earnings | Accu. Tran Adj. |
|---|----------------|-----------------|----------------|-------------------------------------|--------------------|
| | | | (in thousands) | | |
| Balance on January 1, 1998 | NT\$10,375,242 | NT\$9,571,830 | NT\$697,332 | NT\$4,041,357 | 1 |
| Appropriations and distributions for 1997 | | ı | 1 | ı | 1 |
| Legal reserve | ı | I | 357,146 | (357,146) | 1 |
| Stock dividends | 2,235,048 | 1 | 1 | (2,235,048) | 1 |
| Capital surplus transferred to capital | 2,235,048 | (2,235,048) | ١ | ` I | l |
| stocks Bonuses paid to employees transferred to | 26,819 | l | ţ | (26,819) | ı |
| capital stocks | 800,000 | 4,337,657 | ţ | I | |
| Accumulated translation adjustments | 1 | ı | ı | I | (201 |
| Unrealized long-term equity investment loss | ı | 1 | 1 | 1 | ı |
| Net income after tax for the year ended December 31, 1998 | | ı | 1 | 1,342,278 | i |
| Capital surplus from disposal of fixed assets | I | 632 | ţ | (632) | |
| Rounding difference | | (E) | l | I | Ī |
| Balance on December 31, 1998 | NT\$15,672,158 | NT\$11,675,070 | NT\$1,054,478 | NT\$2,763,990 | (NT\$201 |
| Balance on January 1, 1999Appropriations and distributions for 1998 | NT\$15,672,158 | NT\$11,675,070 | NT\$1,054,478 | NT\$2,763,990 | (NT\$201 |
| Legal reserve | | ı | 134,165 | (134,165) | I |
| Cash dividends | ı | ı | l | (783,607) | |
| Stock dividends | 156,722 | ı | l | (156,722) | 1 |
| Capital surplus transferred to capital stock. | 1,410,494 | (1,410,494) | ţ | ı | ı |
| Accumulated translation adjustments | 1 | | | • | (220 |
| Unrealized long-term equity investments | 1 | ı | 1 | l | l |
| Net income after tax for the year ended | I | | | 2,601,612 | 1 |
| Capital surplus from disposal of fixed assets | 1 | 22 | l | (22) | J |
| Rounding difference | ı | (E) | ι | <u>)</u> 1 | ı |
| Balance on December 31, 1999 | NT\$17,239,374 | NT\$10,264,597 | NT\$1,188,643 | NT\$4,291,086 | (NT\$421 |
| | | | | | |

Retained Earnings

STATEMENTS OF CASH FLOWS DECEMBER 31, 1999 and 1998

| | | December 31, |
|---|--------------|--------------|
| | 1999 | 1998 |
| | NTS | NTS |
| | (In the | ousands) |
| Cash Flows from Operating Activities | 2 (01 (12 | 1 242 270 |
| Net Income for the Year | 2,601,612 | 1,342,278 |
| Adjustment | 104 107 | 12 296 |
| Loss on bad debt | 194,107 | 13,386 |
| Depreciation expenses | 141,243 | 138,779 |
| Provision for reserve for operations | 8,907,893 | 7,859,857 |
| Unearned premiums reserve release | (7,028,468) | (6,358,082) |
| Valuation gain on short-term investments | (361,721) | (222.562) |
| Special reserve release | (384,423) | (233,562) |
| IBNR reserve release | (99,078) | (94,313) |
| Gain on disposal of long-term investments | (1,046,542) | _ |
| Valuation loss on short-term investments | | 770,344 |
| Loss on disposal of assets | 418 | 4,717 |
| Gain on disposal of assets | (29) | (842) |
| Gain on disposal of real estate | (70,206) | (105,751) |
| Loss on disposal of real estate | - | 24,512 |
| Unrealized gain in long-term equity investments | (9,787) | 12,294 |
| Notes receivables (increase) decrease | (138,605) | (5,560) |
| Tax receivables | ` <u>-</u> | 60,429 |
| Accrued income (increase) decrease | 128.490 | (44,000) |
| Premiums receivables (increase) decrease | 579,942 | (527,891) |
| Reinsurance recovery receivables (increase) decrease | (6,052,622) | 857,532 |
| Due from other insurers (increase) decrease | 159,966 | (175,113) |
| Other receivables (increase) decrease | 131,354 | (348,891) |
| Prepayments (increase) decrease | 101,964 | (107,582) |
| . , , , | 27,971 | |
| Deferred tax assets-current (increase) decrease | , | (39,669) |
| Deferred tax assets-noncurrent (increase) decrease | (40,277) | 2.125 |
| Overdue receivables (increase) decrease | (61,395) | 3,135 |
| Notes payable increase (decrease) | _ | (18,671) |
| Accrued expenses increase (decrease) | 88,593 | (48,014) |
| Accrued tax increase (decrease) | 59,415 | 26,369 |
| Commission payable increase (decrease) | (23,316) | (10,372) |
| Indemnity payments payable increase (decrease) | 5,913,999 | (786,813) |
| Reinsurance indemnity payable increase (decrease) | 153,820 | 31,316 |
| Other payable increase (decrease) | (572,393) | (88,149) |
| Advance receipts increase (decrease) | (1,018,401) | 876,642 |
| Accrued pension liability | _ | (12,309) |
| Provision of unpaid claim reserve for reported claim increase | 273,227 | 364,320 |
| Deferred income tax liability-noncurrent increase (decrease) | (2,355) | (4,047) |
| et Cash Provided by (Used in) Operating Activities | 2,554,396 | 3,376,279 |
| ash Flows from Investment Activities | 2,004,000 | 3,370,279 |
| Short-term investments (increase) decrease | (2,377,352) | (3,234,294) |
| , , | | (3,234,274) |
| Mortgage (increase) decrease | (80,000) | |
| Proceeds from disposal of long-term investments | 1,355,539 | 1,004,344 |
| Acquisition of long-term investments | (1,279,762) | (4,828,760) |
| Disposal of fixed assets | 688 | 3,896 |
| Acquisition of fixed assets | (106,304) | (143,859) |
| Deferred charges (increase) decrease | 3,005 | (6,221) |
| Acquisition of non-operating assets | (16,638) | (6,921) |
| Guarantee deposits paid (increase) decrease | (229,361) | (647,413) |
| Provision for reinsurance liability reserve (increase) decrease | 4,588 | 6,458 |
| et Cash Used in Investing Activities | (2,725,597) | (7,852,770) |
| | (4,740,071) | (7,652,770) |

STATEMENTS OF CASH FLOWS (Continued) DECEMBER 31, 1999 and 1998

| | Year ended Dec. 31, | |
|---|---------------------|------------|
| | 1999 | 1998 |
| | NTS | NT\$ |
| | (in th | ousands) |
| Cash Flows from Financing Activities | | |
| Notes issued under repurchase agreement increase (decrease) | (442,416) | 49,590 |
| Provision for other liability reserve increase (decrease) | (86,638) | (41,635) |
| Provision for special reserve increase (decrease) | 21,120 | (21,120). |
| Received from liability reserve increase (decrease) | 53,480 | (40,651) |
| Received from guarantee deposit increase (decrease) | (252) | 13,242 |
| Receivable from reinsurance liability reserve increase (decrease) | (258,149) | (73,015) |
| Issued cash dividend | (783,607) | <u> </u> |
| Increasing capital by cash | _ | 5,137,657 |
| Net cash provided by financing activities | (1,496,462) | 5,024,068 |
| Increase (decrease) in cash and cash equivalents | (1,667,663) | 547,577 |
| Cash and cash equivalents at the beginning of year | 14,826,538 | 14,278,961 |
| Cash and cash equivalents at the end of year | 13,158,875 | 14,826,538 |
| Supplemental Disclosure of Cash Flows Information | | |
| Interest paid (excluding capitalized interest) | 86,679 | 90,982 |
| Income tax paid | 460,247 | 419,657 |

NOTES TO FINANCIAL STATEMENTS (Expressed in New Taiwan dollars unless otherwise stated)

1. ORGANIZATION OF BUSINESS

Fubon Insurance Co., Ltd. (the "Company") was incorporated on April 17, 1961 in Taiwan, pursuant to the provision of the Company Law (the "Company Law") of the Republic of China ("ROC"). The Company primarily engages in the business of property and casualty insurance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Cash and Cash Equivalents

Cash equivalents are all highly liquid instruments, such as treasury bills, commercial paper and bank acceptance purchases with a maturity period of three months or less, and other highly liquid investments with insignificant interest rate risk.

(2) Short-Term Investments

Marketable equity securities are recorded at cost when acquired and stated at the lower of cost or market value on the balance sheet date. Stock dividends are treated as an increase in the number of shares. The cost of marketable equity securities sold is determined by the weighted-average cost method.

Investment fund certificates are recorded at cost when acquired and stated at the lower of cost or market value on the balance sheet date. The cost of investment fund certificates sold is determined by the weighted-average cost method.

Short-term notes are recorded at cost when acquired and stated at the lower of cost or market value on the balance sheet date, if the market value is available. The cost of these notes, interest income, and gain or loss either due to maturity or resulting from the sale of notes are determined by the specific identification method.

Bonds and convertible bonds are recorded at cost when acquired and stated at the lower of cost or market value on the balance sheet date. The cost of these bonds sold is determined by the specific identification method.

(3) Allowance for Bad and Doubtful Debts

Allowance for bad and doubtful debts on notes receivables, premiums receivables, accounts overdue and other receivables is determined based on the aging of outstanding balances of such accounts and the past experience of the Company.

(4) Bonds Attached With Repurchase or Resale

The bonds with repurchase or resale option whose attributes of risk and reward are judged by their real transactions. It will be considered as the financing action, if the reward or risk is attributed to seller side, while it will be considered as trading action if the reverse is the case.

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan dollars unless otherwise stated)

If a transaction under resale agreement meets the financing criterion, such deals should be recorded at trading price on trading date, and listed under the item as assets. While the resale of the security should be viewed as assets in cash, the difference should be considered as interest income.

If a transaction under repurchase agreement meets the financing criterion, the deal should be recorded at trading price on trading date, and listed under the item as liabilities. While the repurchase of the security should be viewed as liabilities pay off, the difference should be considered as interest expenses.

(5) Long-Term Investments

Investments in (i) listed shares which the Company's board of directors resolves to hold for more than one year or (ii) unlisted shares are recorded as long-term equity investments. If an equity investment in listed shares is less than 20% of the investee's common stock and the Company's management does not exercise significant influence over such investee, this equity investment is stated at the lower of cost or market value, and any provision for diminution in value is treated as unrealized loss and is accounted as an adjustment to stockholders' equity. If an equity investment in unlisted shares is less than 20% of the investee's common stock and the Company's management does not exercise significant influence over such investee, such investment is stated at cost, and any provision for a permanent diminution in value is treated as a non-operating loss of the period and the investment is reported at cost less provision. Stock dividends are accounted as an increase in the number of shares held.

If an equity investment is more than 20% of the investee's common stock and the Company's management exercises significant influence over such investee, this equity investment is accounted for using the equity method. Under the equity method, if the difference between investment cost and underlying equity in net assets comes from discrepancies between the book value of assets and their fair market values, then an investor company shall offset all unamortized differences when conditions making such over - or under-valuation are no longer present. If the source of the difference between the investment cost and underlying equity in net assets cannot be identified, such difference shall be amortized for a period between 5 and 20 years.

If the investee company issues new shares and original shareholders do not purchase new shares proportionately, then the investment percentage, and therefore, the equity in net assets for the investment will be changed. Such difference shall be used to adjust the additional paid-in capital and the long-term investment accounts. If the adjustment stated above is to debit the additional paid-in capital account and the book balance of additional paid-in capital from long-term investments is not enough to be offset, then the difference shall be debited to the retained earnings account.

The cost of investments sold is determined by the weighted-average cost method.

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan dollars unless otherwise stated)

(6) Investments in Real Estate

Investments in real estate are stated at cost when acquired. The cost of an investment in real estate and its corresponding revaluation surplus and accumulated depreciation are written off upon retirement or disposal. The gain or loss resulting from disposal of an investment in real estate is classified as an operating gain or loss.

Depreciation is calculated by the straight-line method based on the "Estimated Useful Life of Fixed Assets Table" published by the Executive Yuan of the Republic of China ("ROC") government (the "Government"). After the end of its estimated useful life, if a depreciable real estate is still in use, depreciation is determined according to its newly estimated remaining useful life.

(7) Fixed Assets

Fixed assets are recorded at cost when acquired. Material improvements, additions and renewals which can extend an asset's economic useful life or increase its value are capitalized when incurred, while expenditures related to regular maintenance and repair are expensed in the profit and loss account.

The cost of a fixed asset and its corresponding revaluation surplus and accumulated depreciation are written off upon retirement or disposal. The gain or loss resulting from such a disposal is recorded as a non-operating gain or loss. The gain (after tax) from such a disposal is transferred to the capital surplus account in the year when it arises.

Fixed assets are depreciated in accordance with the straight-line method under the "Estimated Useful Life of Fixed Assets Table" published by the Executive Yuan of the Government. After the end of its estimated useful life, if a depreciable asset is still in use, depreciation is determined according to its newly estimated remaining useful life.

(8) Deferred Charges

Deferred charges of the Company are stated at cost and amortized over three years in accordance with the straight-line method.

(9) Insurance Premium Revenues and Expenses

The gross premiums of direct insurance are recognized as revenues when the policy is issued. In general, reinsurance premiums assumed and reinsurance commission expenses are recognized upon assumption of reinsurance, and claim expenses for assumed reinsurance policies are recognized when being notified to make such claim payments, and at the end of each quarter, adjustments to such recognition are made based on past experience. Other underwriting expenses are estimated and recorded at the end of each quarter.

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan dollars unless otherwise stated)

(10) Pension Plan (and its Reserve)

In April 1998, the Company has adopted the new pension plan due to the application of labor law standards, which applied to all employees.

The Company set up its Labor Pension Fund Committee and Pension Policy in 1988. Pursuant to the Regulations Governing Labor Pension Reserves and Management Acts of the ROC, the Company contributes 8.0% of total salaries and wages per month for the pension reserve and deposits these funds in an independent bank account. Since 1995, the Company has followed the requirements prescribed in the Statement of Financial Accounting Standards No. 18, entitled "Accounting for Pensions". Based on an actuarial report, only the minimum pension liability was required to be recognized and disclosed in 1995. In addition, net periodic pension costs are valued on an actuarial basis, and the funding status of the pension fund has been disclosed since 1996.

(11) Foreign Currency Transactions and Accounts

The Company records all transactions in New Taiwan dollars. In accordance with the Statement of Financial Accounting Standards No. 14, entitled "Accounting for Foreign Currency Transactions", all foreign currency transactions (except forward contracts) are recorded in New Taiwan dollars using the spot rate on the transaction date. All assets and liabilities stated in foreign currencies are translated into New Taiwan dollars at the exchange rate on the balance sheet date. Any gain or loss resulting from the translation is recognized as a non-operating gain or loss, except for long-term equity investments for which such a gain or loss is reported as "Accumulated Translation Adjustments" in statements of changes in stockholders' equity.

(12) Estimated Income Tax

In 1995 the Company adopted the provisions of Statement of Financial Accounting Standards No. 22, "Accounting for Income Taxes," for inter-period and intra-period tax allocations. Temporary differences of pre-tax amounts that give rise to taxable amount in a future period are classified as deferred tax liabilities, and temporary differences of pre-tax amounts that give rise to deductible amounts are classified as deferred tax assets. Furthermore, the Company is required to reduce deferred tax assets by a valuation allowance if some portion or all of the deferred tax assets will not be realized. A deferred tax liability or asset should, according to the classification of its related liability or asset, be classified as current or non-current. However, if a deferred tax liability or asset can't be related to a liability or asset in the financial statements, then it should be classified as current or non-current based on the expected length of time before it is settled or recovered.

The 10% business income tax on the Company's undistributed retained earnings shall be accrued as income tax based on the date of dividend declaration approved by the stockholders' meeting.

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan dollars unless otherwise stated)

Prior year's income tax adjustment, if it is a change in an accounting estimate, should be recorded as an adjustment of current year's income tax expense.

(13) Capital Expenditure and Expenses

Expenditure is capitalized and amortized over its useful life if it involves a significant amount and benefits future periods. Otherwise, it is expensed in the year of expenditure.

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan dollars unless otherwise stated)

3. CHANGES IN ACCOUNTING PRINCIPLES AND THEIR EFFECTS: None

4. CASH AND CASH EQUIVALENTS

| | December 31, | |
|--|----------------|----------------|
| | 1999 | 1998 |
| Cash on hand | 3,773,942 | 8,840,633 |
| Cash in banks | 290,276,638 | 623,838,944 |
| Time deposits | 5,377,483,000 | 4,732,950,000 |
| Transferable certificates of time deposits | 4,145,000,000 | 6,629,119,198 |
| Foreign currency deposits | . 516,930,452 | 460,692,301 |
| Cash equivalents (1) | 2,831,093,866 | 2,371,096,871 |
| Less: Guarantee deposits (2) | (5,683,000) | |
| Total | 13,158,874,898 | 14,826,537,947 |
| Interest rate | 4.85% -5.95% | 4.8%-7.25% |

- (1) Cash equivalents are bank acceptances and commercial paper, which can be cashed within three months.
- (2) Please refer to Note 19 for further details.

5. SHORT-TERM INVESTMENTS

| | December 31, | | |
|--------------------------------------|-----------------|-----------------|--|
| | 1999 | 1998 | |
| Share certificates (ordinary shares) | 7,346,413,214 | 4,895,488,900 | |
| Beneficiary certificates | 2,642,660,583 | 2,735,072,314 | |
| Corporate bonds | 1,023,638,724 | 1,673,030,990 | |
| Short-term equity securities | 1,303,201,417 | 1,136,026,245 | |
| Government bonds | 5,158,022,410 | 3,759,555,489 | |
| Financial debentures | 337,009,304 | 239,547,501 | |
| Overseas investments | 992,668,385 | 1,735,381,746 | |
| Sub-total | 18,803,614,037 | 16,174,103,185 | |
| Less: Guarantee deposits | (2,693,976,102) | (2,441,817,461) | |
| Allowance for valuation loss | (408,623,494) | (770,344,485) | |
| Total | 15,701,014,441 | 12,961,941,239 | |

(1) Please refer to Note 19 for further details.

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan dollars unless otherwise stated)

6. NOTES AND PREMIUMS RECEIVABLES—NET

(1) Notes Receivables

| | December 31, | | |
|--|---------------|---------------|--|
| | 1999 | 1998 | |
| Notes receivables | 1,226,962,708 | 1,088,357,564 | |
| Less: Allowance for bad and doubtful debts | (43,234,722) | (11,053,978) | |
| Net | 1,183,727,986 | 1,077,303,586 | |

(2) Premiums Receivables

| | December 31, | | |
|--|---------------|---------------|--|
| | 1999 | 1998 | |
| Premiums receivables | 1,691,679,978 | 2,271,692,379 | |
| Less: Allowance for bad and doubtful debts | (29,576,457) | (20,590,969) | |
| Net | 1,662,103,521 | 2,251,101,410 | |

7. REINSURANCE RECOVERY RECEIVABLES

Reinsurance recovery receivables claims for which, when the reinsurance loss is incurred, the Company can receive from other reinsurance company according to the ratio of reinsurance.

8. MORTGAGE LOANS-NET

Mortgage loans as of December 31, 1999 and 1998 are summarized below:

| _ | December 31, | | |
|--|--------------|--------------|--|
| | 1999 | 1998 | |
| Mortgage loans | 164,000,000 | 84,000,000 | |
| Less: Allowance for bad and doubtful debts | (14,694,970) | (10,340,000) | |
| Net | 149,305,030 | 73,660,000 | |

The loan interest rates were 5%-9.25% and 9.25% as of December 31, 1999 and 1998.

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan dollars unless otherwise stated)

9. LONG-TERM INVESTMENTS

(1) Equity

| | December 31, | |
|--|-----------------|-----------------|
| Investee | 1999 | 1998 |
| A. Under the equity method: | | |
| 1. Fubon Venture Capital Corp. | 99,910,400 | 90,342,437 |
| B. Under the cost method: | | |
| 1. Central Reinsurance Corp | 4,999,500 | 3,333,000 |
| 2. WK Technology Fund | 74,750,000 | 74,750,000 |
| 3. Taiwan Aerospace Corp | 65,528,150 | 65,528,150 |
| 4. China Trust Venture Capital | 100,000,000 | 100,000,000 |
| 5. Quanta Display Inc | 75,000,000 | - |
| 6. Ji-haw Industrial Co., Ltd | 15,000,000 | |
| 7. Chunghwa Picture Tubes, Ltd | 9,434,000 | _ |
| 8. Arco Communication Co., Ltd | 9,250,000 | _ |
| 9. China Alliance Venture Fund | 120,000,000 | 100,000,000 |
| 10. Win Win Venture Capital Co., Ltd | 69,680,000 | 69,680,000 |
| 11. Pacific Cellular Corp. | 541,675,630 | 624,442,500 |
| 12. Teng Feng Venture Capital Investment Corp | 50,000,000 | 50,000,000 |
| 13. Kuo Chiao Venture Capital Investment Corp | 60,000,000 | 60,000,000 |
| 14. Preferred Stock of Texas Instrument Acer Inc. | · · · - | 200,000,000 |
| 15. TECO Electric & Machinery Co., Ltd | 663,274,643 | 663,274,643 |
| 16. Sampo Corporation | 21,564,410 | 21,564,410 |
| 17. Sharp CB III | 30,000,000 | 30,000,000 |
| 18. Chin Fu Co., Ltd | 456,858,693 | 456,858,693 |
| 19. Hsin Yu Energy Development Co., Ltd | 60,000,000 | · · · - |
| 20. A-Trend Technology Co., Ltd | 347,666,666 | 347,666,666 |
| 21. FAT Venture Capital Co., Ltd | 50,000,000 | 50,000,000 |
| 22. Jen Hsin Securities Co., Ltd. | 15,000,000 | 15,000,000 |
| 23. Primus Technology Fund | 54,000,000 | 30,000,000 |
| 24. Yi Hua Venture Capital Investment Corp | 30,000,000 | 30,000,000 |
| 25. Global Synthetic Securities Co., Ltd | 451,035,000 | 451,035,000 |
| 26. Taiwan High Speed Rail Co., Ltd | 925,000,000 | 625,000,000 |
| 27. Fubon Commercial Bank Co., Ltd | 537,231,826 | 426,340,173 |
| 28. Fubon Securities Co., Ltd | 1,196,222,701 | 1,114,490,949 |
| 29. Chin Tau Electronic Co., Ltd | 85,000,000 | 85,000,000 |
| 30. Tai Mao Development Co., Ltd | 50,400,000 | 50,400,000 |
| 31. Kuoyang Const. Co., Ltd | 398,239,200 | 737,480,000 |
| 32. Master Link Security investment Trust Enterprise | 57,000,000 | 57,000,000 |
| 33. Pacific Venture Capital Co., Ltd | 25,000,000 | 25,000,000 |
| 34. Hann Star Display Corp | 69,972,000 | |
| 35. Preferred Stock of Texas Instrument Acer Inc | 31,104,000 | _ |
| 36. Acer Display Technology Inc | 130,000,000 | - |
| Sub-total | 6,979,796,819 | 6,654,186,621 |
| Prepayment for long-term investment | 900,000,000 | 300,000,000 |
| Allowance for long –term equity investments loss | (1,013,901,863) | (1,290,783,987) |
| Total | \$6,865,894,956 | \$5,663,402,634 |

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan dollars unless otherwise stated)

- A. The Company recognized investment revenue \$9,784,000 and investment loss \$1,725,000 as of December 31, 1999 and 1998 for long-term investment in equity securities under the equity method. The investment revenue or loss was based on the investee company's CPA audited financial statements.
- B. Except for the investment in Fubon Venture Capital Corp., the Company invested in less than 20% of the outstanding voting stock in each of the above companies. The equity method is adopted for the investments in Fubon Venture Capital Corp., in which the Company holds more than 20% of the investee's voting shares. The cost method is used for all other long-term investments.
- C. The Company invested in TECO Electric & Machinery Co., Ltd., Chin Fu Co., Ltd., Sampo Corp., Fubon Commercial Bank Co., Ltd., Fubon Securities Co., Ltd. and Kuoyang Const. Co., Ltd., which are intended to be held for long period of time and are approved by the board of directors. These investments are recorded as long-term investments.
- D. The Company sold 5,000,000 shares of Pacific Cellular Corp. on March 1999 to Fubon Life Assurance Co., Ltd. The proceeds from sale of this investment were \$225,000,000 and gain on disposal of this investment was \$174,330,000.
- E. The Company sold 18,550,000 shares of Pacific Cellular Corp. on May 20, 1999 to Daiwa Singapore Ltd., Nippon Investment Financial Co., Ltd. and NIF Taiwan Venture Limited, which were approved by the board of directors. The proceeds from sale of this investment were \$1,060,900,000 and gain on disposal of this investment was \$872,220,000.
- F. The Company invested \$800,000,000 in Taiwan Fixed Network Co., Ltd. And \$100,000,000 in Sinostar Venture Capital Co., Ltd., which companies' registrations are in process at the end of December 31, 1999. The investments are recorded as a prepayment for long-term investment.

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan dollars unless otherwise stated)

(2) Real Estate Investments

| | December 31, 1999 | | | |
|---------------------|-------------------|------------------------|----------------------------|---------------|
| | Cost | Revaluation Surplus | Accumulated Depreciation | Net Value |
| Land | 3,281,358,200 | 18,330,870 | | 3,299,689,070 |
| Buildings | 2,715,242,493 | · · · - | (292,712,754) | 2,422,529,739 |
| Sub-total | 5,996,600,693 | 18,330,870 | $\overline{(292,712,754)}$ | 5,722,218,809 |
| Prepayment for land | 97,273,189 | | | 97,273,189 |
| Total | 6,093,873,882 | 18,330,870 | (292,712,754) | 5,819,491,998 |

| | December 31, 1998 | | | |
|-----------|-------------------|------------------------|--------------------------|---------------|
| | Cost | Revaluation Surplus | Accumulated Depreciation | Net Value |
| Land | 3,227,306,676 | 18,330,870 | | 3,245,637,546 |
| Buildings | 2,677,776,872 | _ | (235,708,247) | 2,442,068,625 |
| Total | 5,905,083,548 | 18,330,870 | (235,708,247) | 5,687,706,171 |

- A. Depreciable assets and land were revalued on December 31, 1976. Total revaluation surplus is \$31,360,000, \$22,100,000 after deducting tax is recorded as capital surplus. \$21,000,000 of such assets revaluation surplus has been transferred to capital stock as of Dec. 31, 1999.
- B. As of December 31, 1999, the total rental income for the next five years is summarized as follows:

| Years | Amounts (in thousands) |
|------------------------------------|---------------------------|
| January 1, 2000— December 31, 2000 | 271,072 |
| January 1, 2001— December 31, 2001 | 101,633 |
| January 1, 2002— December 31, 2002 | 17,567 |
| January 1, 2003— December 31, 2003 | 10,586 |
| January 1, 2004— December 31, 2004 | 440 |
| Total | 401,298 |

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan dollars unless otherwise stated)

10. FIXED ASSETS

| | | December 31, 1999 | |
|--------------------------|---------------|-------------------|---------------|
| | Cost | Net Value | |
| Land | 600,549,646 | _ | 600,549,646 |
| Buildings | 1,074,790,890 | (214, 151, 328) | 860,639,562 |
| Transportation equipment | 77,502,541 | (40,963,401) | 36,539,140 |
| Other equipment | 357,991,701 | (250,876,572) | 107,115,129 |
| Sub-total | 2,110,834,778 | (505,991,301) | 1,604,843,477 |
| Construction in progress | 35,430,590 | _ | 35,430,590 |
| Prepayment for equipment | 49,070,000 | | 49,070,000 |
| Total | 2,195,335,368 | (505,991,301) | 1,689,344,067 |

| | December 31, 1998 | | |
|--------------------------|-------------------|---------------|---------------|
| | | Accumulated | |
| | <u>Cost</u> | Depreciation | Net Value |
| Land | 629,923,404 | _ | 629,923,404 |
| Buildings | 1,092,439,075 | (186,316,959) | 906,122,116 |
| Transportation equipment | 74,554,591 | (30,845,794) | 43,708,797 |
| Other equipment | 348,846,558 | (210,090,296) | 138,756,262 |
| Sub-total | 2,145,763,628 | (427,253,049) | 1,718,510,579 |
| Construction in progress | 13,459,411 | | 13,459,411 |
| Total | 2,159,223,039 | (427,253,049) | 1,731,969,990 |

The Company insured fixed assets and real estate investments and paid premiums of \$2,649,480,000 and \$2,555,800,000 as of December 31, 1999 and 1998, respectively.

11. OVERDUE RECEIVABLES

| | December 31, | |
|--|---------------|-------------|
| | 1999 | 1998 |
| Overdue receivables | 154,760,276 | 93,365,520 |
| Less: Allowance for bad and doubtful debts | (154,760,276) | (6,245,520) |
| Total | 0 | 87,120,000 |

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan dollars unless otherwise stated)

12. RESERVE FOR OPERATIONS & LIABILITIES

| | December 31, | |
|---|----------------|----------------|
| | 1999 | 1998 |
| Unearned premium reserve | 7,907,665,932 | 7,028,467,732 |
| Special reserve | 5,441,143,827 | 5,047,301,652 |
| Reserves for claims | 1,930,760,138 | 1,600,167,687 |
| Other liability reserve | 404,944,838 | 351,464,425 |
| Sub-total | 15,684,514,735 | 14,027,401,496 |
| Deferred income tax liabilities-non-current | _ | 2,355,372 |
| Total | 15,684,514,735 | 14,029,756,868 |

Reserve for operations includes the following reserves:

(1) Unearned Premiums Reserve

- A. According to the Implementation Rules of Insurance Law, the unearned premiums reserve is determined by multiplying total retained gross premiums for each policy by a prescribed rate.
- B. Pursuant to the memorandum, issued by the MOF on October 29, 1994 entitled "Accounting Treatment of Mandatory Third-Party Liability Automobile Insurance," the provision for unearned premiums reserve in relation to mandatory third-party liability motor insurance is determined by retained pure gross premiums by prescribed rate as stated in the above mentioned memorandum.

(2) Special Reserve

The Company must provide provision for special reserve for each type of insurance policies according to the Insurance Law. The related provision and release of special reserve are expressed as follows:

- A. Provision of special reserve is determined by the reserve formula issued by the MOF.
- B. If the actual claims and claims adjustment expenses for a particular type of insurance are less than an amount determined by the MOF as the "expected" amount of claims and claims adjustment expenses for such insurance, the Company must also provide 50% of such difference as additional special reserve for such year.
- C. If the actual claims and claims adjustment expenses exceed 150% of the "expected" amount, the Company can release such difference from the special reserve.

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan dollars unless otherwise stated)

- D. The total amount of special reserve of an insurance company for year-end and each type of insurance at the end of any year may not exceed its net earned premiums for such year from such type of insurance; any excess amount must be released from its reserves and treated as income of the insurance company. An insurance company may set aside additional special reserves with the approval of the MOF.
- E. For compulsory car insurance policy, additional special reserve shall be provided according to the regulations of the MOF as follows: any remaining amount of total amount of retained earned pure premium, reinsurance commissions, incurred but not reported claims (IBNR) reserve release and interest of prior year's special reserve after deducting total amount of retained loss incurred and provision of IBNR reserve shall be provided as additional special reserve.
- F. The provision for special reserve for compulsory car insurance must be kept in time deposits. This special reserve can only be used to cover pure premium loss.

(3) Reserves for Claims

Reserves for claims are provided for according to the memoorandum "Insurance Industry Provision of Reserve for Indemnity" issued by the MoF. Those provisions include:

- A. Provision of unpaid claim reserve for reported claims is estimated by each insurance company based on several factors, including historical information and circumstances surrounding each claim for each type of insurance.
- B. Provision of IBNR reserve is determined according to earned premiums for each type of insurance in accordance with regulations issued by the MOF.
- C. Each year's provision of reserve for claims shall be released at the end of that year.
- D. According to new regulations issued by the MOF in 1994, the base of computing the provision of IBNR reserve of compulsory car insurance is net earned premium.

(4) Other Liability Reserve

According to the Implementation Memorandum of MOF, the other liability reserve is determined by multiplying total fire payback premiums (based on an actuarial report) by a prescribed rate.

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan dollars unless otherwise stated)

13. CAPITAL STOCK AND CAPITAL INCREMENT

- (1) As of December 31, 1999, the total authorized share capital value was \$17,680,000,000; paid-in share capital was \$17,239,374,310 for 1,723,937,431 ordinary shares, with \$10 par value per share.
- On May 19, 1999, the stockholders approved an increase of share capital by issuing 156,721,584 shares out of retained earnings and capital surplus of \$156,721,580 and \$1,410,494,260, respectively. The Securities and Futures Committee approved the issuance in June 1999 and the change in paid-in share capital registration was completed.
- (3) On March 2, 1998, the stockholders approved an increase of share capital by issuing 449,691,626 shares (including capital increment from current period employees bonus) out of retained earnings and capital surplus of \$2,261,867,820 and \$2,235,048,440, respectively. The Securities and Futures Committee approved the issuance in June 1998 and the change in paid-in share capital registration was completed in August 1998.
- (4) On December 23, 1997, the stockholders approved an increase of capital to issue 80,000,000 shares for cash in the form of Global Depositary Shares. The issuance was completed in April 1998, issued at U.S.\$2.07 per share.

14. CAPITAL SURPLUS

The Company's capital surplus details are as follows:

| | December 31, | | |
|---|----------------|----------------|--|
| | 1999 1998 | | |
| Additional paid-in capital | 10,183,538,945 | 11,594,033,205 | |
| Gains on disposal of fixed assets (after tax) | 79,954,288 | 79,932,735 | |
| Assets revaluation surplus | 1,103,946 | 1,103,946 | |
| Total | 10,264,597,179 | 11,675,069,886 | |

The above capital surplus can only be used to cover accumulated losses or issue stock dividends and it cannot be used to distribute cash dividends. In the case of issuing stock dividends, the following restrictions apply:

(1) Stock dividends issued out of additional paid-in capital can only be made once a year. In addition, a stock dividend must be distributed at least one year after the year in which the additional paid-in capital arises. The amount of stock dividends issued must follow the

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan dollars unless otherwise stated)

rules prescribed by the Securities and Futures Committee. The capital increment year is based on the date approved by the Ministry of Economic Affairs.

(2) Stock dividends issued out of the revaluation surplus cannot exceed 5% of the balance of the revaluation surplus or 5% of the issued share capital. If the revaluation surplus is used to cover accumulated losses, profits in subsequent years should be credited to the revaluation surplus after statutory distributions until the amounts previously utilized have been fully recovered.

15. RETAINED.EARNINGS

(1) Legal Reserve

Pursuant to the Company Law, 10% of the annual after-tax net income of each company must be appropriated as legal reserve until the total amount of the legal reserve equals to paid-in share capital. This legal reserve can only be used to cover deficits and not for cash dividends. However, if the total accumulated legal reserve is greater than 50% of paid-in share capital, up to 50% of such excess can be capitalized upon resolution of the stockholders.

(2) Unassigned Retained Earnings

As stipulated in the Company's Articles of Incorporation, the restrictions and sequences for distributing annual net income are as follows:

- (a) Covering previous deficits;
- (b) Paying income tax;
- (c) Appropriating 10% of the remaining net income as legal reserve;
- (d) Distributing dividends;
- (e) Bonus to employees at 1% to 5% of the remaining net income; and
- (f) Appropriation of any of the remainder of the retained earnings as proposed by the board of directors and approved by the stockholders.

(3) Undistributed Retained Earnings

Pursuant to the Income Tax Law and Statute for Upgrading Industries, if the Company's undistributed retained earnings (assessed by the tax authority) are up to 100% its paid-in share capital, then the excess retained earnings should be distributed through cash dividend or stock dividend during the next year after assessment by the tax authority. Otherwise, the retained earnings will be distributed and levied by the tax authority to each shareholder on a proportional basis according to the shares of each stockholder. If the limit is exceeded, the excess retained earnings in each year shall be free from the restrictions stated above after having been levied a 10% income tax.

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan dollars unless otherwise stated)

(4) ROC Income Tax Law

According to the ROC Income Tax Law, it integrates the corporate income tax and the shareholder dividend tax with the goal of eliminating the double taxation effect. The key feature of such amendment is to assess a 10% undistributed retained earnings tax on a company's undistributed retained earnings. The undistributed retained earnings after assessment will not be taxed any more.

16. ESTIMATED INCOME TAX

(1) Income tax expenses include the following:

| | December 31, | |
|--|--------------|--------------|
| | 1999 | 1998 |
| Tax based on income | 235,297,597 | 326,148,056 |
| Tax on a separate basis | 118,022,872 | 146,749,008 |
| Deferred income tax liabilities (benefits) | (14,661,880) | (56,025,793) |
| Accrued income tax for previous year | (4,658,589) | 1,660,112 |
| Income tax credit | (1,000,000) | (28,531,383) |
| 10% additional income tax based on undistributed | | |
| earnings | 172,000,000 | |
| Total Income tax expenses. | 505,000,000 | 390,000,000 |

(2) Deferred income tax liabilities and assets are as follows:

| | | December 31, | |
|----|--|---------------|---------------|
| | _ | 1999 | 1998 |
| A. | Total deferred income tax assets | 60,951,444 | 52,067,557 |
| | Total deferred income tax liabilities | 8,975,475 | 14,753,468 |
| B. | Components of deferred income taxes, liabilities and assets resulting from temporary difference: | | |
| | Deductible temporary difference from bad debt loss | (209,681,841) | (12,671,672) |
| | Deductible temporary difference from unrealized exchange loss | (34,123,937) | (194,326,193) |
| | Deductible temporary difference from recognition of maintenance expenses. | - | (1,272,361) |
| | Taxable temporary difference from recognition of pension expenses. | 35,901,901 | 19,512,501 |
| | Taxable temporary difference from unrealized invested revenue | _ | 39,501,370 |
| C. | Deferred income tax assets—current | 11,698,902 | 49,544,804 |
| | Deferred income tax liabilities—current | | (9,875,343) |

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan dollars unless otherwise stated)

| | | December 31, | |
|----|---|--------------|-------------|
| | | 1999 | 1998 |
| | Net deferred income tax—current | 11,698,902 | 39,669,461 |
| D. | Deferred income tax assets—non-current | 49,252,542 | 2,522,753 |
| | Deferred income tax liabilities—non-current | (8,975,475) | (4,878,125) |
| | Net deferred income tax—non-current | 40,277,067 | (2,355,372) |

(3) Adjustments between accrued income tax and income tax for the year ended December 31, 1999 and 1998 are as follows:

| | December 31, | |
|--|--------------|--------------|
| · | 1999 | 1998 |
| Accrued income tax | 235,297,597 | 326,148,056 |
| Deferred income tax expenses (revenue) on unrealized exchange gain/loss | 40,050,564 | (62,279,288) |
| Deferred income tax expenses (revenue) on gain on equity investment | _ | (100,922) |
| Deferred income tax expenses (revenue) on unrealized gain/loss on investment | (9,875,342) | 4,500,000 |
| Deferred income tax expenses on recognition of pension | 4,097,350 | 1,730,375 |
| Deferred income tax expenses on recognition of miscellaneous | _ | 162,917 |
| Deferred income tax expenses on recognition of maintenance | 318,090 | 580,625 |
| Deferred income tax expenses (revenue)on recognition of bad debts | (49,252,542) | (619,500) |
| Income tax credit | (1,000,000) | (28,531,383) |
| Tax on a separate basis | 118,022,872 | 146,749,008 |
| Adjustments on previous year's income tax | (4,658,589) | 1,660,112 |
| 10% additional income tax based on undistributed earnings | 172,000,000 | |
| Total income tax expenses | 505,000,000 | 390,000,000 |

(4) The Company uses the flow-through method to recognize income tax credits which is made available by Statute for Upgrading Industries, Article 6. According to the regulations, the income tax credits may be deducted from the income tax payable in the same year. This credit is limited to 50% of the income tax payable in each year; however, this limit shall not apply to the last year. Any excess income tax credit may be carried forward for up to four years. The details of unused income tax credit is as follows:

| Year | Remaining | Used | Current year | Unused |
|------|-----------|---------------------------------------|--------------|--------|
| | Credit | Credit | Credit | Credit |
| 1999 | 1,000,000 | · · · · · · · · · · · · · · · · · · · | 1,000,000 | |

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan dollars unless otherwise stated)

- (5) The Company's business income tax application has been assessed on 1996 by the tax authority.
- (6) Shareholders' dividend withholdings tax:

| | 1999 | 1998 |
|---|-----------------|---------------|
| Balance of shareholders' tax withheld account | 737,248,098 | 315,417,822 |
| | 1999 (Estimate) | 1998 (Actual) |
| Tax withholding rate | 19.36% | (a) |

- (a) According to the No.11620 on Feb. 24,1975, released by the Ministry of Finance, the Company can't distribute the retained earnings of 1998.
- (7) The undistributed retained earnings:

| Year | December 31, 1999 | December 31, 1998 |
|---------------|--------------------------|--------------------------|
| Prior to 1997 | 482,014,100 | 1,422,343,604 |
| After 1998 | 3,809,072,263 | 1,341,645,934 |
| Total | 4,291,086,363 | 2,763,989,538 |

17. EARNINGS PER SHARE

| | Decembe | December 31, | |
|--|---------------|---------------|--|
| | 1999 | 1998 | |
| Net income after income tax (a) | 2,601,612,475 | 1,342,277,520 | |
| Year-end outstanding number of shares | 1,723,937,431 | 1,567,215,847 | |
| Weighted average outstanding number of shares (b) | 1,723,937,431 | 1,542,382,410 | |
| Adjusted weighted average outstanding number of shares (c) | 1,723,937,431 | 1,696,620,651 | |
| Earnings per share (a)/(b) | 1.51 | 0.87 | |
| Adjusted earnings per share (a)/(b) | 1.51 | 0.79 | |

The changes of the above weighted average outstanding number of shares are shown below:

| | December 31, | |
|--|----------------------|---------------|
| | 1999 | 1998 |
| Shares, at the beginning of year | 1,567,215,847 | 1,037,524,221 |
| Capital increment out of retained earnings in 1999 | 15,672,158 | 15,423,824 |
| Capital increment out of capital surplus in 1999 | 141,049,426 | 138,814,417 |
| Cash capital increment in 1998 | _ | 56,547,945 |
| Capital increment out of retained earnings in 1998 | | 223,504,844 |
| Capital increment out of capital surplus in 1998 | | 223,504,844 |
| Capital increment out of employees bonus in 1998 | _ | 1,300,556 |
| Total | <u>1,723,937,431</u> | 1,696,620,651 |

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan dollars unless otherwise stated)

18. RELATED PARTY TRANSACTIONS

(1) Related Parties

| (1) | Fubon Land Development Co., Ltd | The company's chairman is the company's chairman. |
|------|--|--|
| (2) | Fu-An Leasing Co., Ltd. | Affiliate |
| (3) | Fubon Commercial Bank Co., Ltd | Affiliate |
| (4) | Fubon Investment Services Co., Ltd. | The company's chairman is an immediate family member of the company's chairman |
| (5) | Fubon Securities Co., Ltd. | Affiliate |
| (6) | Fubon Securities Investment Trust Co., Ltd | The company's chairman is the second immediate family member of the company's chairman |
| (7) | Tao Yin Co., Ltd. | Affiliate |
| (8) | Ming Tong Co., Ltd. | |
| (9) | Fubon Life Assurance Co., Ltd. | The company's chairman is the second immediate family member of the company's |
| | | chairman |
| (10) | Fubon Securities Finance Co., Ltd. | Affiliate |
| (11) | Fubon Bills Finance Co., Ltd. | Affiliate |
| (12) | Fubon Direct Marketing Consulting Co., Ltd | Affiliate |
| | | The company's chairman is an immediate family member of the company's chairman |
| (14) | Chung Hsing Construction Co., Ltd. | The company's chairman is the company's chairman |
| (15) | Fubon Future Co., Ltd. | Affiliate |
| (16) | Fubon Construction Management Co., Ltd | The company's chairman is the company's chairman |
| (17) | Fubon Technology Consulting Co., Ltd. | Affiliate |
| (18) | Fubon Culture & Education Foundation | Affiliate |
| (19) | Fubon Charity Foundation | Affiliate |

(2) Transactions with related parties

A. Premium Revenues (from related parties):

December 31, 1999 Direct Written Premiums Name **Premiums** Receivables (1) Fubon Land Development Co., Ltd..... 602,105 19,185 (2) Fu-An Leasing Co., Ltd..... 12,847 1,872 (3) Fubon Commercial Bank Co., Ltd..... 133,787,870 1,381,926 (4) Fubon Investment Services Co., Ltd..... 15,336 1,278 3,973,206 (5) Fubon Securities Co., Ltd..... 511,133 (6) Fubon Securities Investment Trust Co., Ltd....... 205,068 (7) Tao Yin Co., Ltd..... 231,522 (8) Ming Tong Co., Ltd. 355,707 1,470 (9) Fubon Life Assurance Co., Ltd..... 2,369,021 534,973 (10) Fubon Securities Finance Co., Ltd..... 225,249 51,694 (14) Chung Hsing Construction Co., Ltd..... 1,512 (16) Fubon Construction Management Co., Ltd. 5,498 141,784,941 Total 2,503,531

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan dollars unless otherwise stated)

| | | December 31, 1998 | |
|------|--|--------------------------|-------------|
| | | Direct Written | Premiums |
| Nam | <u>e</u> | Premiums | Receivables |
| (1) | Fubon Land Development Co., Ltd | 285,720 | 99,553 |
| (2) | Fu-An Leasing Co., Ltd | 2,451 | _ |
| (3) | Fubon Commercial Bank Co., Ltd | 38,588,016 | 3,283,955 |
| (4) | Fubon Investment Services Co., Ltd | 5,822 | 1,136 |
| (5) | Fubon Securities Co., Ltd. | 4,024,280 | 472,387 |
| (6) | Fubon Securities Investment Trust Co., Ltd | 219,508 | 57,038 |
| (7) | Tao Yin Co., Ltd | 15,540 | _ |
| (8) | Ming Tong Co., Ltd | 389,215 | _ |
| (9) | Fubon Life Assurance Co., Ltd | 1,837,651 | 472,880 |
| (10) | Fubon Securities Finance Co., Ltd | 233,467 | 25,497 |
| (14) | Chung Hsing Construction Co., Ltd | 678,183 | – |
| | Total | 46,279,853 | 4,412,446 |

(B) Real estate rental income (from related parties)

| | | | Decemb | er 31, 1999 | |
|------|---|-------------|------------|-------------|------------|
| | | Rental | | Guarantee | |
| Nam | <u>ıe</u> | Income | Percentage | Deposits | Percentage |
| (1) | Fubon Land Development Co., Ltd | 1,801,520 | 0.61% | | |
| (3) | Fubon Commercial Bank Co., Ltd | 69,356,048 | 23.30% | 2,504,600 | 4.87% |
| (4) | Fubon Investment Services Co., Ltd | 716,240 | 0.24% | _ | - |
| (5) | Fubon Securities Co., Ltd. | 40,986,486 | 13.77% | 4,860,396 | 9.63% |
| (6) | Fubon Securities Investment Trust Co., Ltd. | 8,569,695 | 2.88% | 533,700 | 0.01% |
| (7) | Tao Yin Co., Ltd | 2,649,144 | 0.89% | 400,000 | 0.78% |
| (8) | Ming Tong Co., Ltd | 2,649,144 | 0.89% | 400,000 | .78% |
| (9) | Fubon Life Assurance Co., Ltd | 41,481,494 | 13.93% | 7,484,818 | 4.55% |
| (10) | Fubon Securities Finance Co., Ltd | 331,143 | 0.11% | 400,000 | _ |
| (11) | Fubon Bills Finance Co., Ltd | 2,117,904 | 0.71% | 123,304 | 0.24% |
| (12) | Fubon Direct Marketing Consulting Co., Ltd. | 7,100,480 | 2.38% | 966,000 | 1.88% |
| (13) | Fubon Art Foundation | 358,575 | 0.12% | _ | _ |
| (15) | Fubon Future Co., Ltd | 6,147,049 | 2.06% | 948,000 | 1.84% |
| (17) | Fubon Technology Consulting Co., Ltd | 49,000 | 0.02% | · – | |
| (18) | Fubon Culture & Education Foundation | 147,620 | 0.05% | _ | _ |
| (19) | Fubon Charity Foundation | 147,620 | 0.05% | _ | _ |
| | Total | 184,609,162 | _ | 18,620,818 | |

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan dollars unless otherwise stated)

| | | Decembe | r 31, 1998 | |
|---|---------------|------------|------------|------------|
| | | | Guarantee | |
| <u>Name</u> | Rental Income | Percentage | Deposits | Percentage |
| (1) Fubon Land Development Co., Ltd | 2,605,716 | 1.03% | 400,000 | 0.77% |
| (3) Fubon Commercial Bank Co., Ltd | 61,281,308 | 24.24% | 2,504,600 | 4.85% |
| (4) Fubon Investment Services Co., Ltd | 810,288 | 0.32% | 137,760 | 0.27% |
| (5) Fubon Securities Co., Ltd | 42,835,784 | 16.94% | 7,843,196 | 15.17% |
| (6) Fubon Securities Investment Trust Co., Ltd. | 11,752,148 | 4.65% | 2,014,420 | 3.90% |
| (7) Tao Yin Co., Ltd | 2,571,432 | 1.02% | 400,000 | 0.77% |
| (8) Ming Tong Co., Ltd | 2,571,432 | 1.02% | 400,000 | 0.77% |
| (9) Fubon Life Assurance Co., Ltd | 31,778,110 | 12.57% | 5,290,818 | 10.24% |
| (11) Fubon Bills Finance Co., Ltd | 645,876 | 0.26% | 123,304 | 0.24% |
| (12) Fubon Direct Marketing Consulting Co., | 6,024,568 | 2.38% | | |
| Ltd. | | | 966,000 | 1.87% |
| (13) Fubon Art Foundation | 463,810 | 0.18% | _ | _ |
| (15) Fubon Futures Co., Ltd | 2,560,475 | 1.01% | 948,000 | 1.83% |
| Total | 165,900,947 | • | 21,028,098 | |

All of leases are operating leases, and there are no material differences from market prices.

C. Others

- a. The Company had deposits in Fubon Commercial Bank Co., Ltd. of about \$2,860,340,000 and \$2,979,630,000 as of December 31, 1999 and 1998, respectively.
- b. The Company had a group insurance policy with Fubon Life Assurance Co., Ltd. The insurance expenses were \$10,170,000 and \$7,690,000 as of December 31, 1999 and 1998, respectively.
- c. The Company had a service contract with Fubon Securities Co., Ltd. to handle share registry and underwriting of common stocks. The Company paid \$8,840,000 and \$8,050,000 services fees and \$16,700,000 and \$16,110,000 underwriting fees to that company as of December 31, 1999 and 1998, respectively.
- d. The Company had a service contract with Fubon Investment Services Co., Ltd. to provide consultation services and paid service fees of \$3,750,000 as of December 31, 1999 and 1998.
- e. The Company sold 5,000,000 shares of Pacific Cellular Corp. on March 1999 to Fubon Life Assurance Co., Ltd. The proceeds from sale of this investment were \$225,000,000 and gain on disposal of this investment was \$174,330,000.

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan dollars unless otherwise stated)

19. ASSETS PLEDGED

| _ | December 31, | | |
|----------------------------|---------------|---------------|--|
| | 1999 | 1998 | |
| Guarantee Deposits Paid | | | |
| 1. Guarantee treasury bill | 2,693,976,102 | 2,441,871,461 | |
| 2. Time deposits | 5,683,000 | | |
| Total | 2,699,659,102 | 2,441,871,461 | |

- (1) The pledged assets mostly are the government treasury bills deposited by the Company with The Central Bank of China as insurance guarantee required by the Insurance Law.
- (2) The pledged assets are disclosed at their net carrying values.

20. OTHER IMPORTANT MATTERS AND CONTINGENT LIABILITIES

- A. The Company had an insurance dispute with the Ju Jiang Construction Co., Ltd. in 1993 and had paid an indemnity of \$49,240,000. This case is at the Supreme Court of appeal and has not been resolved as of December 31,1999.
- B. The Company had an insurance dispute with the Farmers Bank of China and was required to pay an indemnity of \$5,000,000. This case is at the Supreme Court of appeal and has not been resolved as of December 31, 1999.
- C. The Company had an insurance dispute with Taichung Business Bank and was required to pay an indemnity of \$18,000,000. Legal proceedings have been initiated and not been resolved as of December 31, 1999.
- D. The Company had an insurance dispute with Taipei Seventh Credit Cooperation and was required to pay an indemnity of \$11,140,000. This case needs to be investigated and was declared judicially to go back to preparation procedure.
- E. The Company had a dispute for exchanges of non-monetary assets with Ms. Yan-Jan Wang. This case is at district court on trial as of December 31,1999. The actual exchange square meters of floor assigned to Ms. Wang should wait for the final sentence of the court.
- F. The Company had an insurance dispute with the Jun Dun Co., and was required to pay an indemnity of \$2,000,000. Legal proceedings have been initiated and not been resolved as of December 31, 1999.

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan dollars unless otherwise stated)

- G. The Company had an insurance dispute with the Ja-Zu Enterprise Ltd., and was required to pay an indemnity of \$36,000,000. This case is at the district court of appeal and has not been resolved as of December 31,1999.
- H. The Company had accepted public accident insurance for Chu Long Corp., which had an insurance dispute with the third party and was required to pay an indemnity of \$4,847,000. This case is at the district court of appeal and has not been resolved as of December 31,1999.
- I. The Company had an insurance dispute with Zo-Lian Country Farmers association and was required to pay an indemnity of \$3,806,000. This case is at the district court of appeal and has not been resolved as of December 31,1999.
- 21. SERIOUS DAMAGES: None
- 22. SUBSEQUENT EVENTS: None

23. OTHER IMPORTANT EVENTS

For September 21, 1999 Taiwan powerful earthquake, the Company estimates that the amount of loss incurred is about \$5,600 million. Due to adequate reinsurance, the amount of the Company's retention is about \$80 million. The related indemnity has already been estimated and accrued as of December 31,1999, so the powerful earthquake does not have a significant impact on the Company.

24. INFORMATION FOR INVESTMENT IN MAINLAND CHINA: None

25. PENSION RELATED INFORMATION

(1) Net periodic pension cost:

| | December 31, | |
|------------------------------------|----------------|----------|
| | 1999 | 1998 |
| | (in thousands) | |
| 1. Service cost | 43,232 | 57,636 |
| 2. Interest cost | 52,685 | 52,188 |
| 3. Actual return on plan assets | 14,641 | 35,933 |
| 4. Deferred pension gain and loss | 25,159 | 400 |
| 5. Projected return on plan assets | (39,800) | (36,333) |

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan dollars unless otherwise stated)

| | December 31, | |
|---|----------------|--------|
| | 1999 | 1998 |
| | (in thousands) | |
| 6. Net amortization cost | 12 241 | 12 241 |
| a. Amortization of unrealized transition obligation (asset) | 13,241 | 13,241 |
| b. Amortization of prior service cost | 1,308 | 981 |
| 7. Net periodic pension cost | 0 | 87,713 |

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan dollars unless otherwise stated)

(2) Pension funded status:

| | December | 31, |
|---|-------------|---------------|
| | 1999 | 1998 |
| | (in thousan | ids) |
| 1. Vested benefit obligation | (222,036) | (233,893) |
| 2. Non-vested benefit obligation | (217,399) | (213,415) |
| 3. Accumulated benefit obligation | (439,435) | (447,308) |
| 4. Additional benefits based on future salaries | (279,124) | (318,280) |
| 5. Projected benefit obligation | (718,559) | (765,588) |
| 6. Vested benefit | | (427,611) |
| 7. Fair value of plan assets | 547,509 | 531,845 |
| 8. Funded status = $(5) + (7)$ | (171,050) | (233,743) |
| 9. Unrecognized transition obligation (asset) | | 198,621 |
| 10. Unrecognized prior service cost | . 23,865 | 25,173 |
| 11. Unrecognized gain and loss | | 29,462 |
| 12. Additional liability | . <u> </u> | · |
| 13. Accrued pension cost/prepaid pension cost | | |
| =(8)+(9)+(10)+(11)+(12) | . 35,902 | 19,513 |
| (3) Actuarial assumptions | | |
| 1. Discount Rate | 6.5% | 7.0% |
| 2. Rate of increase in compensation | 6.5% | 5.0% |
| 3. Projected return on plan assets | 4.5% | 7.0% |
| | | |

26. FINANCIAL PRODUCTS RELATED INFORMATION

- (1) Financial derivatives related information: None
- (2) Non financial derivatives related information:

The book value of non-financial derivatives as of December 31, 1999 are the same as the estimated fair market value.

27. SEGMENT INFORMATION

- (1) Segment financial information by industry: Not applicable.
- (2) Geographic financial information: Not applicable.
- (3) Export sales information: the majority of gross premium is derived from domestic business. Foreign revenues do not exceed 10% of total revenues.

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan dollars unless otherwise stated)

(4) Disclosures of major customers: the Company has no customer from which it receives more than 10% of its gross premiums.

28. RECLASSIFICATIONS

Certain amounts in the 1998 financial statements have been reclassified to conform to the 1999 presentation for comparison purposes. These reclassifications do not have a significant impact on the financial statements.

Reference 1: Gross Premiums

| | Dece | | | | nber 31, | | | |
|--------------------------------|---|---|--------------------------------|----------------|-------------------------------|---|-------------------------|-------------------|
| | 1999 | | | 1998 | | | | |
| | Direct Written <u>Premiums</u> | Reinsurance Premiums <u>Assumed</u> | Discount on Premiums (in thous | Gross Premiums | Direct Written Premiums | Reinsurance Premiums <u>Assumed</u> | Discount on Premiums | Gross Premiums |
| Motor: | | | (| | | | | |
| Motor physical damages | | | | | | | | |
| insurance | 3,103,341 | 249,329 | 170,198 | 3,182,472 | 3,581,197 | 239,857 | (151,019) | 3,670,035 |
| Motor third party liability | -,, | , | , | -,, | -,, | , | (,) | 0,0.0,000 |
| insurance | 3,508,539 | 147,998 | 220,855 | 3,435,682 | 3,642,495 | 176,883 | (188,169) | 3,631,209 |
| Motor compulsory third party | , , | , | ,- | , , | | , | ` , , | -,, |
| liability insurance | 2,327,291 | 448,083 | 0 | 2,775,374 | 2,284,029 | 868,453 | 0 | 3,152,482 |
| Motorcycle compulsory third | , | | | _,,, | , , | , | | .,, |
| party liability insurance | 1,479,255 | 365,488 | 1,124 | 1,843,619 | _ | _ | 0 | _ |
| Fire: | , , | | · | | | | | |
| Fire insurance | 835,977 | 61,838 | 23,358 | 874,457 | 928,746 | 86,667 | (44,456) | 970,957 |
| Long-term fire insurance | 635,011 | 0 | 5,051 | 629,960 | 501,295 | 0 | (10,308) | 490,987 |
| Long -term fire savings | | | | | | | | |
| insurance | 170,109 | 0 | 0 | 170,109 | 147,802 | 0 | 0 | 147,802 |
| Fire & allied perils insurance | 1,098,106 | 108,543 | 16,347 | 1,190,302 | 1,191,559 | 63,534 | (20,050) | 1,235,043 |
| Shop comprehensive insurance | 33,095 | 0 | 482 | 32,613 | 35,616 | 0 | (661) | 34,955 |
| Marine cargo: | | | | | | | , , | , |
| Marine cargo insurance | 813,289 | 85,223 | 0 | 898,512 | 859,246 | 96,598 | 0 | 955,845 |
| Casualty: | | | | | | | | |
| Engineering insurance | 899,119 | 33,597 | 0 | 932,716 | 982,827 | 29,054 | . 0 | 1,011,881 |
| Performance bond insurance | 73,223 | 1,627 | 0 | 74,850 | 58,326 | 4,365 | 0 | 62,691 |
| Other property insurance | 132,519 | 2,702 | 0 | 135,221 | 119,572 | 7,769 | 0 | 127,341 |
| Liability insurance | 749,808 | 37,212 | 0 | 787,020 | 638,059 | 29,577 | 0 | 667,636 |
| Consumer's loan credit | | | | | | | | |
| insurance | 181,964 | 0 | 0 | 181,964 | 135,103 | 0 | 0 | 135,103 |
| Other: | | | | | | | | |
| Marine hull insurance | 71,988 | 1,705 | 0 | 73,693 | 79,997 | 4,084 | 0 | 84,081 |
| Fishing vessels insurance | 227,511 | 36,466 | - | 263,977 | 225,037 | 40,361 | 0 | 265,398 |
| Aviation insurance | 84,883 | 10,115 | 0 | 94,998 | 71,030 | 7,673 | 0 | 78,702 |
| Nuclear insurance | 0 | 17,697 | 0 | 17,697 | 0 | 18,526 | 0 | 18,526 |
| Total | 16,425,028 | 1,607,623 | 437,415 | 17,595,236 | 15,481,936 | 1,673,401 | (414,663) | 16,740,674 |

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan dollars unless otherwise stated)

Reference 2: Unearned Premiums Reserve

December 31, 1999 1998 Balance at Reserve Balance at Balance at Reserve Balance at Beginning Provision Released Beginning Provision Released the end the end (in thousands) Motor: Motor physical damages 875,790 796,085 875,790 796.085 909,332 875,790 909,332 875,790 insurance..... Motor third party liability insurance..... 895,854 848,163 895,854 848,163 896,158 895,854 896,158 895,854 Motor compulsory third party liability insurance..... 967,851 851,815 926,216 893,450 520,436 926,217 478,802 967,851 Motorcycle compulsory third 750,698 750,698 party liability insurance Fire: 150.352 150,352 150.352 110,168 110.168 176,216 176,216 Fire insurance 150,352 Long-term fire insurance 3,138,357 3,323,126 3,138,357 3,323,126 3,014,929 3,138,357 3,014,929 3,138,357 Long -term fire savings 443,229 496,626 443,229 382,134 443,229 insurance..... 496,626 382,134 443,229 104,633 Fire & allied perils insurance. 76,166 104,633 76,166 25,482 76,166 25,482 76,166 Shop comprehensive insurance 12,940 12,016 12,940 12,016 12,477 12,940 12,477 12,940 Marine cargo:.... 108,614 103,012 Marine cargo insurance..... 112,321 108,614 112,321 112,321 103,012 112,321 Casualty: 109,259 176,984 109,259 176.984 126,568 109.259 126,568 109.259 Engineering insurance..... Performance bond insurance... 9,165 12,865 9,165 12,865 17,060 9,164 17,060 9,164 9,675 9,675 Other property insurance...... 12,735 12,735 6,871 12,735 6,871 12,735 188,968 238,025 188,968 238,025 147,718 188,968 147,718 Liability insurance..... 188,968 Consumer's loan credit 11,983 2,922 11,983 2,922 1,883 11,983 1,883 11,983 insurance..... 15,039 Marine hull insurance 16,041 15,039 16,041 14,473 16,041 14,473 16,041 44,896 43,983 44,896 43,983 35,899 44,896 35,899 44,896 Fishing vessels insurance..... Aviation insurance 3,663 5,921 3,663 5,921 3,727 3,663 3,727 3,663 Nuclear insurance..... 533 308 533 308 5,341 533 5,341 533 7,070,103 7,907,666 7,028,468 7,949,301 6,399,716 7,028,468 6,358,082 7,070,102 Sub -total Provision for special reserve.. (41,635)(41,635) 41,635 (41,635)

7,028,468

7,907,666

6,399,716

7,028,468

6,399,717

7,028,467

Total.....

7,028,468

7,907,666

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan dollars unless otherwise stated)

Reference 3: Interest income

| | December 31, | |
|---|--------------|-----------|
| | 1999 | 1998 |
| Interest income from bank accounts | 347,468 | 364,452 |
| Interest on loans | 13,505 | 15,250 |
| Interest on negotiable certificate deposits | 258,038 | 412,598 |
| Interest on government bonds | 238,625 | 186,790 |
| Interest on corporate bonds | 106,949 | 124,231 |
| Commercial paper | 133,052 | 128,721 |
| Bank acceptances | 7,830 | 17,034 |
| Interest on reinsurance reserve | 837 | 706 |
| Financial debentures | 19,851 | 12,175 |
| Notes issued under repurchase agreements | 178,387 | 175,392 |
| Interest on overseas investment | 69,690 | 62,628 |
| Interest on treasury bill | 12,807 | _ |
| Other | 7,850 | 5,392 |
| Total | 1,394,889 | 1,505,369 |

Reference 4: Gain on Real -Estate Investments

| | December 31, | |
|---|--------------|---------|
| | 1999 | 1998 |
| Gain on sale of real estate investments | 1,046,542 | 105,750 |
| Real estate rental income | 9,788 | 252,820 |
| Total | 1,056,330 | 358,570 |

Reference 5: Other Operating Income

| | December 31, | |
|---|--------------|-----------|
| | 1999 1998 | |
| Gain on disposal of marketable securities | 1,017,520 | 1,144,280 |
| Cash dividends income | 337,114 | 311,434 |
| Gain on disposal of bills | 5,575 | 180 |
| Gain on disposal of government bonds | 12,489 | 41,193 |
| Other realized gain from investment | 108,095 | 44,011 |
| Total | 1,480,793 | 1,541,098 |

NOTES TO FINANCIAL STATEMENTS (Continued) (Expressed in New Taiwan dollars unless otherwise stated)

Reference 6: Other Operating Costs

| | December 31, | | |
|---|--------------|---------|--|
| | 1999 | 1998 | |
| Loss on disposal of marketable securities | 1,476,548 | 816,604 | |

Reference 7: Marketing Expenses

| | December 31, | | |
|---------------------------------------|--------------|-----------|--|
| | 1999 | 1998 | |
| Bad debt expenses | 194,107 | 13,386 | |
| Depreciation (for investment purpose) | 58,178 | 57,800 | |
| Other marketing expenses | 2,615,285 | 2,506,642 | |
| Total | 0 | 2,577,828 | |

Reference 8: Administrative & General Expenses

| | December 31, | |
|---|--------------|---------|
| | 1999 | 1998 |
| Land taxes | 42,292 | 48,551 |
| Depreciation | 83,065 | 80,979 |
| Other administrative and general expenses | 445,003 | 353,808 |
| Total | 0 | 483,338 |

Reference 9: Non-operating Revenues

| | Decem | ıber 31, |
|----------------------------|---------|----------|
| | 1999 | 1998 |
| Gain on disposal of assets | 29 | 842 |
| Other income | 437,056 | 52,149 |
| Sub-total | 0 | 52,991 |

Reference 10: Non-operating expenses

| | December 31, | |
|--------------------------|--------------|---------|
| | 1999 | 1998 |
| Loss on foreign exchange | 69,607 | 7,238 |
| Loss on disposal of | 419 | 4,717 |
| Other expenses | 34,090 | 788,912 |
| Sub-total | 0 | 800,867 |

File No. 82-4768

<u>Attachment (ii)B-1</u> ENGLISH SUMMARY OF ANNUAL REPORT 2000

Dear Shareholders:

In view of the impact of the –32% growth of the motorcycle compulsory insurance market on Taiwan's property insurance market in 2000, the premium base of such insurance was only NT\$87,900,000,000, which reflects a mere growth of NT\$2,800,000,000, or 3.3%, from the NT\$85,100,000,000 in 1999, and lower than the national economic growth rate of 6.4%.

Notwithstanding keen market competition, the premium base of Fubon property insurance policies reached NT\$17,100,000,000, which was an increase of NT\$700,000,000 from the NT\$16,400,000,000 in 1999. Such growth rate of 4.3% is higher than the growth rate of the entire market by 1%.

Since 1982, Fubon has been in a leading position in terms of market share for 19 consecutive years. Fubon, Ming Tai Property Insurance and Shinkong Property Insurance, whose market shares are 19.5%, 9.3% and 6.9% respectively, ranked the top three in the market.

The sales volume of the automobiles market in 2000 was 420,000, a negative growth for the seventh year in a row. The sales volume of the motorcycle market was also at its ten-year record low, 767,000. Due to the poor automobile and motorcycle market and the –32% growth in motorcycle compulsory insurance, the premium base of automobile insurance policies was NT\$9,813,000,000, reflecting a –5.7% growth from the NT\$10,400,000,000 for the same period of the previous year. Such amount, NT\$9,813,000,000, occupied 57.5% of the premium base of all policies of the company and 19.47% of the market.

Due to the limited growth in the "amount" of automobile insurance policies in recent years, focus will be placed on the improvement of the "quality" of automobile insurance operation through the following measures, with a view to enlarging the gap with the risk of market loss:

1. Adjust business structure by increasing the proportion of business of good quality, e.g., raise the ratio of liability insurance to insurance against automobile damage

- 2. Adjust business structure by decreasing the proportion of business of poor quality, e.g., lower the ratio of type A insurance against automobile damage
- 3. Develop new products and improve the distinctiveness of products in order to avoid malicious competition
- 4. Strengthen policy renewal service and raise the renewal rate in order to cut down on the cost of solicitation
- 5. Extend convenience to customers by e-commerce service with regard to buying insurance and making payment, in order to reduce operating cost
- 6. Continue to promote "the best practice of granting automobile insurance claims"
- 7. Extend on-the-scene service hours with regard to automobile insurance claims to 24 hours, in order to improve customer satisfaction. Claims personnel or contracted companies will be on the scene of the incident to assist the insured in handling the traffic accident, to provide "round-the-clock Fubon care" to the insured.

The loss ratio of automobile insurance in 2000 was 55.5%, thanks to the improvement in business structure, strict quality control etc.

Year 2000 saw a substantial growth in the amount of private investment (17%) as well as import and export (27% and 22% respectively). The company also enjoyed remarkable growth in its fire insurance business, since people have become more willing to take out insurance and the rate has been maintained due to the Sept. 21 earthquake. In 2000, the premium base of fire insurance policies totaled NT\$3,277,000,000. A rise from the NT\$2,770,000,000 in 1999, such amount reflected a growth of 18.2% and covered 19.2% of the premium base of all of the company's policies and 19.6% of the market.

The loss ratio of fire insurance in 2000 was 54.3%, thanks to the policy of "strengthening the selection of business activities to control high loss ratio" to enhance business quality.

In response to the acute competition of the fire insurance market, Fubon devised the

following business strategies with a view to generating long-term insurance profit in the long run: "actively develop new products," "continue to upgrade the quality of insurance service," "restructure the business system to lower the ratio of business of poor quality," and "control operating costs effectively."

Due to the rapid growth in import and export in 2000, the premium base of marine insurance policies was NT\$890,000,000. A rise of the NT\$810,000,000 in 1999, such amount reflected a 9.5% growth and accounted for 5.2% of the premium base of all of the company's policies and 20.1% of the market.

With the rise in the unit price of high-tech insurance, the amount of indemnity for loss per case has been elevating rapidly in recent years. In order to ensure sound operation, not only did the company try to reinforce customer education with respect to the risk of loss, but its actuary department also increased the reserve by modifying the way IBNR reserve was deposited. The 60.2% loss ratio of marine insurance in 2000 was considered good.

The total number of endorsements of marine insurance in 2000 was about 360,000, of which export occupied 6%. In general, the premiums on export business are lower than that on import business, and most export policies are the lowest of all. To cut operating costs, the company will simplify insurance procedures by providing e-commerce in the next year.

The premium base of hull insurance policies totaled NT\$88,000,000 in 2000. A rise from the NT\$72,000,000 in 1999, such amount reflected a growth of 22.8% and covered 6.9% of the market. The loss ratio in 2000 was 18.6%.

The premium base of fishing boat insurance policies totaled NT\$243,000,000 in 2000. A rise from the NT\$228,000,000 in 1999, such amount reflected a growth of 6.6% and covered 32.9% of the market. The loss ratio in 2000 was 44.0%.

Fubon was still leading in the market share of fishing boat insurance, despite intense domestic and overseas competition.

With customers like China Airlines, Mandarin Airlines and Daily Co., Ltd. in 2000, the premium base of aviation insurance policies skyrocketed to NT\$224,000,000. A rise from the NT\$84,000,000 in 1999, such amount reflected a growth of 164.5%.

The loss ratio in 2000 was 1.1%.

Due to the surge of the market share of aviation insurance from 3.4% in 1999 to 12.4%, the business goal of increasing the market share was accomplished smoothly.

The premium base of work insurance policies totaled NT\$1,269,000,000 in 2000. A rise from the NT\$910,000,000 in 1999, such amount reflected a 39.3% growth and accounted for 7.4% of the premium base of all of the company's policies and 28.9% of the market.

The loss ratio of work insurance in 2000 was 92.4%, due to the loss inflicted by typhoons like Bilis and Xang Sane. Focus will be placed on the control of quality of work insurance business in 2001.

The company has been promoting various public safety liability insurances, product liability insurances and employer compensation liability insurances for a long period. The total premium base of new types of insurance policies, including liability insurance and other property insurance, was NT\$13,030,000,00 in 2000. A rise from the NT\$1,124,000,000 in 1999, such amount reflected a 15.9% growth and accounted for 7.6% of the premium base of all of the company's policies. The loss ratio in 2000 was 69.9%.

The company will concentrate on "continuing to develop new products" and "adjusting business structure to reduce the ratio of businesses with a higher loss ratio" in 2001.

1. The following table shows premium receipts and payment of claims of various insurance policies, including reinsurance receipts and discount on direct insurance:

Unit: NT\$1,000

| Insurance | 2000 | 1999 | Amount increased or decreased | Percentage increased or decreased |
|-----------|-----------|-----------|-------------------------------|-----------------------------------|
| Fire | 3,377,321 | 2,897,442 | 479,879 | 16.56% |
| Marine | 963,110 | 898,512 | 64,598 | 7.19% |

| Automobile | 10,036,423 | 11,237,147 | (1,200,724) | -10.69% |
|--------------|------------|------------|-------------|---------|
| Fishing boat | 278,782 | 263,977 | 14,805 | 5.61% |
| Hull | 91,795 | 73,693 | 18,102 | 24.56% |
| Aviation | 228,787 | 94,998 | 133,789 | 140.83% |
| New | 2,665,684 | 2,129,467 | 536,217 | 25.18% |
| Total | 17,641,902 | 17,595,236 | 46,666 | 0.27% |

2. Insurance claims and payment, including reinsurance claims and cost of granting claims

Unit: NT\$1,000

| Insurance | 2000 | 1999 | Amount increased or decreased | Percentage increased or decreased |
|--------------|------------|------------|-------------------------------|-----------------------------------|
| Fire | 1,234,059 | 6,772,027 | (5,537,968) | -81.78% |
| Marine | 651,317 | 570,144 | 81,173 | 14.24% |
| Automobile | 7,016,659 | 7,170,894 | (154,235) | -2.15% |
| Fishing boat | 249,345 | 174,081 | 75,264 | 43.24% |
| Hull | 85,345 | 69,640 | 15,705 | 22.55% |
| Aviation | 30,255 | 584,071 | (553,816) | -94.82% |
| New | 1,550,239 | 2,007,401 | (457,162) | -22.77% |
| Total | 10,817,213 | 17,348,258 | (6,531,039) | -37.65% |

- 3. Retention premiums \$8,154,587,000, retention indemnity NT\$5,087,589,000, retention loss ratio NT\$62.39%, loss of ratio in the previous year 54.48%.
- 4. Unearned premium reserve \$7,947,331,000, a rise of \$39,665,000 from the \$7,907,666 in recovery (收回數).

5. Utilization of capital

Bank savings:

\$10,343,967,000

Securities:

\$19,335,886,000

| Fixed assets for business purpose: | \$1,844,611,000 |
|------------------------------------|------------------|
| Net amount of business investment: | \$16,969,462,000 |
| Net amount of loan on pledge: | \$79,200,000 |

\$5,841,903,000

6. Various fees and expenses \$3,221,215,000, fees and expenses rate 18.26%, lower than the 19.54% in the previous year.

7. Income and expenses 2000

Net amount of investment in real property:

In 2000, the company's business income was \$37,828,564,000, operating costs \$32,285,776,000, business fees and expenses \$3,221,215,000, business profit \$2,321,573,000, fees and expenses regarding income tax \$273,000,000, and after-tax net profit \$2,617,536,000.

8. Profitability of 2000

| Returns on investment: | 4.15% |
|---|--------|
| Returns on shareholder equity: | 7.32% |
| Profit to paid-in capital ratio: | 11.19% |
| Before-tax profit to paid-in capital ratio: | 13.93% |
| Net profit rate: | 6.92% |
| Earnings per share: | \$1.46 |

9. Business strategies

(1) Creating new products

In order to promote product diversity and improve product competitiveness,

the company established a Quarterly Product Meeting Mechanism in 1996 to launch new products. In 2000, premium receipts with respect to new products totaled \$122,000,000, accounting for 6.9% of the premiums of all the policies of the year, hence the effect felt on enhancing service quality.

(2) Establishing a profit center management system

Year 2000 was the second year in which the profit center pilot scheme was implemented in order to reduce costs and increase profit by way of decentralizing corporate hierarchy, promoting transparency of performance, and meting out fair commendation and punishment.

(3) CPR/IT

A CPR/IT group is set up to review procedures, remove redundanices, and shorten processes, with the aim to improve efficiency and cut down costs.

(4) Data warehousing and customer relations management

The company consummated a contract with NCR Systems Taiwan Ltd. for the institution of a data warehousing system in order to reduce computer load, enhance the flexibility of and expedite statistical analysis, upgrade customer service, and encourage contract renewal with clients.

(5) Creating a digitalized office environment

The company conducted knowledge management to strengthen staff's competitiveness by way of encouraging each staff member to learn to use the computer, granting subsidies to them for purchasing computers, and setting up 518 personal workstations for staff.

(6) Entering into strategic alliance with Citigroup to develop Asia's insurance market

In response to the global trend of multi-nationalization, business diversification, and data-orientation of the banking business and also the establishment of conglomerates of financial institutions, the company entered into strategic alliance with Citigroup for the development of Asia's insurance market in 2000.

In 2000, Fubon was the first in the industry to apply to S&P and Taiwan Ratings, Partner of Standard and Poor's for credit rating on its own initiative, in order to comply with the Ministry of Finance's policy of "safeguarding consumer rights --- transparency of insurance company information," and was again awarded the highest rating, "twAAA," by Taiwan Ratings and "AA-" by S&P.

After being awarded by the Asia Insurance Forum the Best Asian Property Insurance Company of the Year in 1999, the company was further granted The First R.O.C. Consumer Golden Medal by the R.O.C. Economic and Trade Research and Development Association.

After winning the award The Best Asian Insurance Company in 1999, the company was further awarded by CFO Asia and Credit Suisse First Boston the Best Annual Reports Awards on December 13, 2000. Out of almost 400 listed companies in nine securities markets in Asia, the parent organization CFO Asia selected 25 companies for commendation in terms of the degree of transparency of information being disclosed, clarity of strategies, and quality of information etc. The award serves to recognize the company's efforts in promoting transparency of information.

The company will continue to create interests for all shareholders, customers and staff as a token of its appreciation for each shareholder's support.

Shih Tsan-Ming (sealed)
President

一犯犯犯壓洲最強產險公司





1999

General Insurance Company of the Year FUBON INSURANCE GO LYD

- 2 總裁序言
- 6 富邦一九九九
- 14 營運績效掃描
- 26 一九九九大事記
- 28 富邦的組織
- 29 財務報告
- 41 分支機構
- 46 關係企業
- 4 Group Chairman's Message
- 10 Fubon 1999 in Review
- 20 Overview of Business Performance
- 26 Events of The Year
- 28 Organization
- 34 Financial Report
- 44 Corporate Information
- 47 Group Companies

The Fubon Group, one of the largest business groups and fully integrated financial services groups in Taiwan, consists of three listed and eight unlisted financial services companies, one direct-marketing company and several other business entities. The Fubon Group provides fully integrated financial services in insurance, banking & finance, and securities & investment services. The Fubon Group also engages in numerous public services activities through Fubon Charity Foundation, Fubon Culture & Education Foundation and Fubon Art Foundation.

As the flagship company of the Fubon Group, Fubon Insurance was established in 1961 and has been the leading property and casualty insurer in Taiwan for the past 18 years.

The members of the Fubon Group have been developing a low cost and captive distribution system through which each member's products can be offered and sold to the public. The Company believes that this distribution system will assist the Company in achieving potential synergies within the Fubon Group and allow it to take advantage of cross-selling opportunities and enhance its customer service.



經由亞洲保險論壇一產、官、學界專業人士 評鑑,依據客戶服務水準、財務狀況、經營 情況、產品創新及開發能力、市場應變能 力、提升整體市場機能之貢獻度與公司獲利 能力等七項考核標準,由全亞洲一百零二家 優良保險公司之中,主動評選出富邦保險為 『一九九九亞洲最佳產險公司』。

In October 1999, a judging committee composed of prominent figures from academia, government and industry was convened by Asia Insurance Review. Their mission: to pick Asia's best insurance company based on seven criteria — service, finances, operations, product innovation & development, market responsiveness, contribution to insurance industry progress, and profitability. Out of 102 top insurance companies, the judges selected one as General Insurance Company of the Year 1999. The winner? Fubon Insurance.

SINCERITY

Fuldon offers hear felt attention to its customes promotes sales with an attitude wathy of hush, and fully cartes out all its social and legal responsibilities

FRIENDLINESS

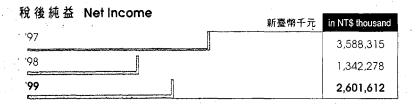
Pubon employees combine onthuslastic service with professional expertise, aggressively meeting austing austioner demonstrate put service number one.

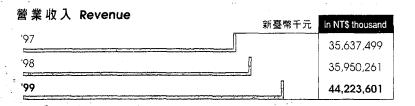
PROFESSIONALISM

Fubon's service personnel era highly dedicated to their professions, taking seriously their professional role of providing sound insurance advice and assisting customers in risk management.

INNOVATION

Research, development, and improvement are constants of Fubon, which offers diverse products and efficient service in the modern thrancial environment. Our market niche is at the top.

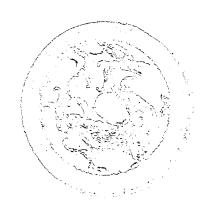




| 資產總額 Assets | | | | |
|------------------|-------|------------------|--|--|
| R /E NO BK PROOF | 新臺幣千元 | in NT\$ thousand | | |
| . '97 | | 47,226,299 | | |
| · '98 | | 53,535,435 | | |
| 99 | | 61,119,326 | | |

| 股東權益 | Shareholders' Equity | 新臺幣千元 | in NT\$ thousand |
|------|----------------------|-------|------------------|
| ·97 | | | 24,685,761 |
| '98 | | | 29,874,711 |
| 99 | |] | 31,969,377 |

| | | | | | • . |
|----|----|---|-----|---|-----------|
| ٠. | s. | | , | in NT\$ thousand except per share and ratio | 1998 |
| 稅 | 前 | 淨 | 利 | Income before income taxes | 1,732,278 |
| 稅 | 後 | 純 | 益 | Net Income | 1,342,278 |
| 每 | 股 | 盈 | 餘 | Net income per common share | 0.87 |
| 毎 | 股 | 股 | 利 | Stock dividends per common share | 1,50 |
| 營 | 業 | 收 | 入 | Revenue 3 | 5,950,261 |
| 資 | 產 | 總 | 額 | Assets 5 | 3,535,435 |
| 股 | 東 | 權 | 益 | Shareholder's equity 2 | 9,874,711 |
| 損 | 失率 | 費 | 用率合 | 計 Combined loss and expense ratio | 87.8 |



滿懷信心與希望昂然適向千禧年

二十世紀末、新千禧年之初,人類仍站立在 新舊交接的轉捩點。千年一次的千禧年,在世人 心理上是一個全新局面的開端,象徵著歡欣與希 望;然而,在現實世界裡,我們所迎接的千禧 年,將是危機與轉機、挑戰與機會並存、有收穫 也有失望的不確定年代。

富邦產物保險公司成立於一九六一年,也是 富邦集團最早成立的公司,雖然已連續十八年居 於市場領先地位,但面對近年來市場與資訊科技 快速的變遷,全體二千一百位員工仍不敢有一日 的鬆懈,無時不以「戰戰兢兢、臨深履薄」的態 度,堅守崗位、因應市場變化。

一九九九年十月,由亞洲保險論壇主辦的第

三屆「亞洲保險業選拔競賽」中,富邦保險以健全的財務結構、產品的研發創新及優異的經營能力,脫穎而出,被票選為『一九九九亞洲年度最佳產險公司』。這是「富邦保險」在國際舞台上再一次獲得肯定,全體富邦人對這項殊榮都特別珍惜,也期望能永遠保持這項得來不易的殊榮。

為響應財政部「保障消費者權益 -- 保險公司 資訊公開化」的政策,富邦保險於一九九九年率 先同業,主動申請美商標準普爾公司(Standard & Poor's)及中華信用評等公司的信用評等,得到中 華信評「twAAA」最高評等及S&P「AA」」評 等,這項評等結果,不僅是給消費大眾一個安 心,同時也給經營團隊一個向上努力的指標。



集團總裁 蔡萬才 Tsai Wan-Tsai, Group Chairman

一九九九年,與世界經濟緊密相連的台灣, 受到美國經濟榮景及亞洲經濟景氣復甦的帶動, 呈現開低走高的局勢,在第四季成長率已達百分 之六點七七。二千年經濟成長,將直接受惠於全 球景氣擴張,加上災後重建工作陸續展開,致使 國內需求加溫,預期為各行各業帶來更好的經營 環境;同時,部分企業危機也在政府有效的控制 下得以解除,並逐漸擺脫亞洲金融風暴影響。受 到民間投資在半導體光電業、電信自由化、高速 鐵路開工等重大投資帶動下,預估千禧年成長率 可達到百分之六點五四。

物價方面,雖受到國際油價飆漲壓力與貨幣供給成長的影響,有上漲壓力,但由於台幣升值

吸納部分漲幅,預測通膨率應在百分之二以下, 尚稱溫和。就整體經濟情勢以觀,千禧年的台灣 經濟,將面臨資金需求大增、財政吃緊及物價上 漲等考驗,對台灣而言,不只是機會、更是挑 戰,也是實現千禧願景必須克服的障礙。

富邦集團的千禧年願景為:「透過專業、創新的金融全方位服務,建立員工、顧客、股東最大滿意的專業金融全集團」。面對市場自由化與網路資訊科技的急遽變化,全體「富邦人」都深切體認,掌握發展趨勢與動向,不斷創新商品、改善流程,是富邦集團永續經營、持續領先的基石。衷心希望我們每一分努力的成果,都能成為台灣經濟成長的助力。祝福大家有個龍騰虎躍的二千年。[3]

Message from the Group Chairman

FILLED WITH HOPE AND CONFIDENCE WE STRIDE INTO THE NEW MILLENNIUM

As we enter into the new millennium and leave the 20th century behind, we stand at an historic cusp between old and new. The once-in-a-thousand-year occasion of the new millennium represents to the human psyche the start of a whole new era, instilling us with a sense of hope and joy. Yet in the real world, the new millennium is an uncertain era, one of crises and turning points, challenges and opportunities, gain and disappointment.

Fubon Insurance was founded in 1961, making it the oldest company in the Fubon Group. Fubon has been the insurance market leader for 18 years in a row, but, aware of dramatic changes in the market and in information technology in the recent years, our 2100 associates dare not rest on their laurels. With caution and prudence, we must respond judiciously to the constantly changing marketplace.

In October 1999, in the third Asia Insurance Industry Awards sponsored by Asia Insurance Review, Fubon Insurance emerged from this competition as "General Insurance Company of the Year," thanks to its solid financial strength, innovation in product development, and superior business operations. This latest affirmation on the international stage is a great pride to the entire Fubon team, which hopes to repeat it in years to come.

In 1999, Fubon took an important step in complying with the government's new policy of making insurance company information accessible to protect the interests of the consumers. We set an example for the industry by applying for credit ratings from Standard & Poor's and the Taiwan Ratings Corp. ("TRC"). The results were impressive: a "twAAA" from TRC, and an "AA" from S & P's. The ratings not only reassure the public, they set a benchmark for management that will drive future improvements.

Since Taiwan is so closely integrated into the global economy, it benefited in 1999 from America's booming economy and the Asian economic recovery. Taiwan's conomic growth climbed out of the doldrums to reach a 6.77% level in the fourth quarter. Year 2000 growth is also expected to benefit directly from the global expansion. Rebuilding efforts following 1999's earthquake will further stimulate domestic demand, brightening the economic picture for virtually every industry. Meanwhile, the financial crises that had hit some firms have been resolved owing to effective government control. As these firms leave the Asian financial crisis behind them, private investment in the semiconductor industry, telecommunications market liberalization, and groundbreaking on the Taiwan High-Speed Rail high-speed will deliver further impetus to investment, driving growth to a forecast level of 6.54%.

Despite inflationary pressures from rising oil prices and an expansion in the money supply, inflation is still expected to be under 2%, as a portion of inflation is being absorbed by the appreciation of the NT dollar. The overall economic picture in 2000 will be tested by a sharp increase in capital demand, tighter fiscal policy, and price inflation. These pose both a challenge and an opportunity for Taiwan as it seeks to overcome the obstacles to the promise of the new millennium.

The Fubon Group's vision for the new millennium is to be "A professional financial group maximizing customer, employee, and shareholder satisfaction through a complete spectrum of innovative financial services". Precipitous changes brought by market deregulation and information technology have made all of us "Fubon people" acutely aware: the foundation of sustainable success and leadership comes from seizing on market trends, from constant innovation, and from process re-engineering. I hope that the fruits of our dedication will help propel Taiwan's economy ever forward. I wish you all a vigorous and prosperous year 2000. [3]

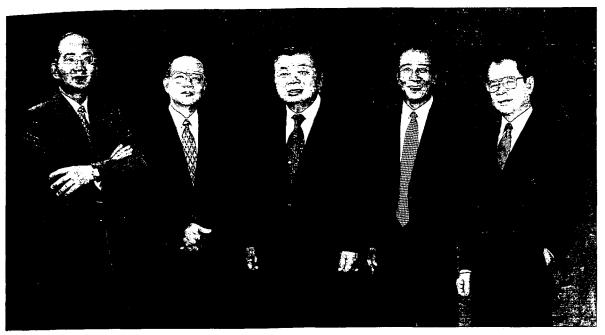
龍騰萬里迎千禧富邦鴻運跨世紀

在世人的殷殷期盼下,千年一次的千禧年終 於翩翩到來。回首消逝在時代巨輪裡的一九九九 年,全球出現了不少世紀末的災變事件,台灣地 區也發生了史無前例、震驚國際的「九二一大地 震」。在世人的注目下,台灣同胞再次展現驚人 的奮鬥意志,積極進行各項重建工作,也為台灣 造就了百分之五點七的經濟成長率。

一九九九,對富邦產物保險而言,是邁向 國際舞台成功的一年,也是公司形象備受肯定 的豐收年······。

馳騁亞洲·再傳捷報 榮膺『1999亞洲最佳產險公司』 富邦產物保險以優異的經營體質、健全的 財務結構、高度的產品創新研發能力、良好的 客戶服務水準等多項優勢,在亞洲保險論壇所 舉辦的「第三屆亞洲保險業選拔競賽」中,歷 經評審委員會初選、評審團撰文推薦、與全亞 洲入圍者共同角逐等過程,終於在一百零二家 保險同業中脫穎而出,獲選為『一九九九亞洲 最佳產險公司』。這是國內產物保險公司首次 在國際舞台獲此殊榮,意義非凡。

總經理石燦明親赴新加坡接受頒獎表揚後表示:本次獲獎,是『富邦』繼八十七年順利發行全球存託憑證(GDR)後,再次受到國際



左至右:副總經理·林良海、總經理 石燦明、副董事長 廖史眼、執行副總經理 賴國利、副總經理 陳燦煌 left to right: Peter L.H. Lin , Senior Vice President; Shih Tsan-Ming, President; Liao Shih-Yen, Vice Chairman; Lai Kuo-Li, Executive Vice President; Steve T.H. Chen, Senior Vice President

市場的肯定。未來,也將朝「建構『富邦』成為具有國際競爭力的公司」之目標繼續努力。

財務強度優良·展望穩定 獲中華信評最高評等:twAAA Standard & Poor's 評等:AA-

信用評等乃是對一個企業履行其財務承諾之能力,與其他債務人相比較所作的客觀評估。 『富邦』為配合政府推動「保障消費者權益、資訊透明化及費率自由化」之保險政策,主動向國內、外兩家著名的信用評等機構~美商標準普爾公司及中華信用評等公司~同時提出接受信用評等之申請。相關結果於八十八年十一月初正式揭曉:中華信評授予最高評等「twaaa」, Standard & Poor's 信評等級則為「AA-」。

以 S & P's 的評等等級而言,在國際市場上,『富邦』的信評等級超越英國著名的保險機構~Lloyd's,與法國AXA、日本Nippon Fire等國際知名的保險業者不相上下,堪稱為國內民營企業申請信用評等的最佳成績。

而中華信評級給予「twAAA」的最高評價, 反映出『富邦』具有優異的經營體質、穩健的財 務基礎、優越的資本適足性與領先群倫的承保績 效,在台灣產物保險業佔有極重要的市場地位, 同時也代表『富邦』具有「極強的債信能力」與 「相當穩定」的展望。 理賠服務・邁向新紀元 全公司理賠作業系統 同時通過 ISO 9002 認證

富邦產物保險於八十四年成立「損害防阻服務部」,旨在提供客戶損害防阻相關諮詢服務,進而協助企業達成零災害、零損失、低風險的目標。為提升「損害防阻」服務制度的合理化及專業化,遂推動導入 ISO 9002 國際品質管理認證,並於八十七年九月取得法國BVQI公司的認證,使得富邦產物保險的「損害防阻」服務,得以更切合客戶的需要。



八十八年度,為強化管理體質,整合內部資源,落實品質管理系統,全公司理賠作業系統再度接受挑戰,全面導入 ISO 9002 國際品質管理認證;歷經七個月的努力,正式於十二月取得SGS公司之認證,成為產物保險業首家以「全公司理賠作業系統」通過國際品質認證的公司,也為『富邦』的專業再添佳績。

以「創新」取代「價格惡性競爭」 積極研發新保單・擴大產品差異性 新商品保費收入比例逐年上升

研究發展是企業賴以生存、社會賴以進步的不二法門,保險業自然也不例外,在國際化、自由化的發展趨勢下,保險業正面臨著前所未有的激烈競爭;此時,唯有不斷地研發新商品,創造產品的差異性,來滿足消費者不同層面的需求,才能在瞬息萬變的環境中脫穎而出。

富邦產物保險近幾年來,積極從事新商品研究發展,八十八年陸續推出「機車駕駛人傷害保險」、「火災保險附加傷害保險」、「火災保險附加地層下陷、滑動或山崩保險」、「受託物管理人責任保險」、「汽車保險附加道路救援費用保險」等多項新商品,由於商品設計皆能以消費者需求為導向,因此一經推出銷售,皆能迅速獲得社會大眾的回響與支持。

新商品舉績與總保費收入比較表 New Product v.s. Total Premium Income

新臺幣元/in NT\$

| 99 | 1,018,000,000 | 16,412,848,000 | 6.20% |
|-----|---|----------------------------|---------|
| '98 | 804,483,834 | 15,626,929,670 | 5.15% |
| '97 | 339,508,997 | 15,156,870,626 | 2.24% |
| '96 | 159,696,094 | 15,272,398,994 | 1.05% |
| | Me find the | AREA Medical Concend | ## % |

一九九九亚洲最佳產險公司

亞洲保險論壇評審委員會 對『年度最佳產險公司~富邦產物保險』之總評

『富邦』擁有強勁的業務拓展能力,持續 提供良好的客戶服務,並能創新產品、挑戰變 化多端的保險市場,因此業績快速成長,穩居 台灣產險市場的龍頭老大。除此之外,『富 邦』也積極參與國家重大工程建設,如台灣高

鐵、通訊建設等。

『富邦』一直雄心勃勃地 拓展國內市場,希望在幾年內 藉由提升市場競爭能力及併購 同業公司,以達成市場佔有率 百分之三十的目標。同時也也 議遺力地朝向國際化目標大 邁進,目前,已陸續在馬來西 亞、泰國、印尼、越南,就近服 務海外台商客戶。

『富邦』經營財產保險所 承保的各項險種,諸如火災保 險、汽車保險、貨物運輸保 險、工程保險以及種類廣泛的

責任保險…等。一九九八年簽單保費為新台幣一百六十七億元,核保利潤達新台幣六點五億元,稅後淨利因受投資環境影響而減為新台幣十三億元。身為產物保險龍頭的『富邦』,同時也極力倡導社會大眾重視道路行車安全,在提醒政府相關單位改善道路狀況及嚴格執行交通法規方面,亦贏得極大的肯定。



GENERAL INSURANCE COMPANY OF THE YEAR THE JUDGING COMMITTEE'S EVALUATION:

Fubon has a strong business expansion capability and continuously delivers excellent service to its customers. It can innovate new products and meet the challenge of the wildly changing marketplace. This is why it has enjoyed rapid growth and sits snugly atop Taiwan's insurance market. Moreover, Fubon actively participates in major infrastructure projects such as communications and the Taiwan High-speed Rail.

Fuben has titrelessly, developed its domestic market, and looks to attain a 30% market share in the next few years as it boosts competitiveness and undertakes corporate acquisitions of competitors. Fubon has also made great strides towards intermationalization, with offices in Malaysia, inclinar, Indonesia, Vietnam, the Philippines, and Hong Kong bringing service to its policyholders in those countries.

Fubon underwrites a variety of insurance lines, including fire insurance, motor insurance, marine cargo insurance, engineering insurance, and a variety of liability insurance. Its written premiums in 1998 totalled NT\$16.7 billion, generating underwriting profits of NT\$650 million. Under the impact of the overall investment climate, after-tax net profit fell to NT\$130 million. Fubon, Taiwan's insurance industry leader, also energetically campaigns for road safety and advises the government on road improvements and strict enforcement of traffic laws. These activities have earned Fubon much acclaim.

展望未來,在科技進步及經濟高度發展

下,國民價值觀及生活形式的變化勢將日趨複雜,對保險的需求也必更為殷切。有鑑於此,富邦產物保險將持續投入更多的人力及物力,專注於商品的研發,積極推出更多新商品,讓社會大眾均可藉由保險獲得合理、充分的保障。

住評連連・再獲肯定 富邦消防試驗室・傲視東南亞 榮獲第一屆保險信望愛獎 『評審特別推薦獎』

富邦產物保險於八十六年六月斥資四千萬 元,設立東南亞首屈一指的「富邦消防試驗室」, 希望藉由完善的設備、專業的訓練,傳達正確的保 險與損害防阻觀念,讓國內企業體會到消防防護系 統的重要性,進而降低災害所致之損失。

「富邦消防試驗室」除提供消防設備顧問諮詢外,並規劃一系列消防訓練課程,相關軟硬體服務,廣獲國內家大型企業的好評與支持。八十八年元月,由現代保險雜誌主辦、也是國內第一



個保險專業獎項~「保險 信望愛獎」,為肯定『富 邦』在消防教育訓練上的 努力,特別頒發『評審特 別推薦獎』以茲鼓勵。

得獎理由

損害防阻的工作在產險業顯得尤其重要,因此,富邦產物保險在淡水設立「消防試驗室」,提供企業體損害防 阻的觀念,有助於減輕事故發生所造成的損失。

富邦與其他公司比較表 Fubon v.s. Other Companies

| E STANTY | 多司 Company | SAP'S Reiling |
|---------------|------------------------------|------------------|
| 台灣 Taiwan | 台灣電力 Taiwan Power | AA |
| 合知 Jeiwen | ENDON INSUENCE | |
| 台灣 Taiwan | 台灣銀行 Bank of Taiwan | A + |
| 日本 Japan | Nippon Fire & Marine | AA ⁻ |
| 英國 England | Royal & Sun Alliance | AA ⁻ |
| 英國 England | Lloyd's | A + |
| 美國 USA | Allstate Property & Casualty | AA |
| 法國 France | AXA Assurance IARD | AA" |

資料來源:中華信用評等公司 Information source: Taiwan Ratings Corp.

富邦與國內保險公司比較表 Fubon v.s. Domestic Insurance Companies

| 金司 | Company | SAP'S Reiling |
|------|---------------------------|------------------|
| | | . AAP |
| 中國 | Chung Kuo Insurance | BBBpi |
| 第一 | First Insurance | BBBpi |
| 蘇黎世 | Zurich Insurance | BBBpi |
| 台產 | Taiwan Fire & Marine | BBpi |
| 中央再保 | Central Reinsurance | BBpi |
| 明台 | Mingtai Fire & Marine | BBpi |
| 太平 | Tai Ping Insurance | Bpi |
| 中國航聯 | China Mariners' Assurance | Bpi |

資料來源:中華信用評等公司 Information source: Taiwan Ratings Corp.

| NOTE | | |
|-------------|----------|-----------------------------|
| pi: | 表示評等是根據該 | Indicates a rating based on |
| | 公司對外公布之財 | financial information |
| | 務資訊所為之分 | announced publicly by the |
| | 析,並非該公司自 | company, and not the |
| | 行申請信用評等所 | results of an actual credit |
| | 得之結果。 | rating application. |
| AA rating : | 財務強度很強 | Very strong |
| A rating: | 財務強度強 | Strong |
| BBB rating | :財務強度適當 | Adequate |
| BB rating: | 財務強度稍弱 | somewhat weak |
| B rating: | 財務強度較弱 | weak |

Fubon 1999 in Review

Finally, the long-awaited new millennium is upon us, and 1999 is receding away on the great wheel of history. The last year of the 20th century brought numerous natural disasters worldwide, and Taiwan experienced a huge earthquake on September 21 that made world headlines. With the world watching, the Taiwanese people showed amazing resilience as we aggressively took up the task of rebuilding. This same vigor was also responsible for economic growth of 5.7%.

The year 1999 was one in which Fubon Insurance made great strides toward international success, and burnished anew its brilliant corporate image.

FUBON INSURANCE: THE PRIDE OF ASIA

WINNING 'GENERAL INSURANCE COMPANY OF THE YEAR'

Every year the Asia Insurance Review holds the Asia Insurance Industry Awards, a comprehensive competition involving 102 insurance companies region-wide. In 1999, after the preliminary round, committee nominations, and final judging, the winner – Fubon Insurance. With our superior management, solid financial strength, highly innovative product development, and excellent customer service, Fubon Insurance has become

Taiwan's first property & casualty insurance company to win this prestigious international award.

On his visit to Singapore to accept the award, Fubon Insurance President Shih Tsan-ming noted that this international affirmation came on the heels of 1998's successful GDR issue, another international triumph. He said that in the future, successful GDR issue, another internationally competitive company. Fubon will continue to forge itself into an internationally competitive company.

FINANCIAL PROWESS AND A STABLE FINANCIAL OUTLOOK

FUBON EARNS TRC'S HIGHEST RATING: TWAAA AND AN AAT FROM STANDARD & POOR'S

A credit rating is an objective evaluation of a company's ability to redeem its financial commitments, judged in comparison to other companies. In cooperation with government policy of rate deregulation and greater transparency to protect consumer interests, Fubon applied on its own initiative for two credit ratings, one domestic and one international. The applications were simultaneously submitted, and in November 1999, Taiwan Ratings Corp. and Standard & Poor's issued their ratings. TRC gave Fubon Insurance its highest rating, twAAA, and S & P's rated Fubon a very respectable AA.

By way of comparison, S & P's rating for Fubon was on a par with that for Lloyd's of London, France's AXA, Japan's Nippon Fire, and a bevy of other prominent international firms. The AA was the highest ever received by a private company in Taiwan.

Meanwhile, TRC's rating reflects Fubon's superior competitiveness, solid financial strength, high capital adequacy, and superior underwriting returns. The rating demonstrates that Fubon's status and modest leadership in Taiwan's property & casualty insurance industry, and that it enjoys an outlook of "very strong" and "stable".

CALIMS SERVICES FOR A NEW ERA

FUBON'S CLAIMS SYSTEMS WIN ISO 9002 CERTIFICATION

In 1995, Fubon Insurance established the Safety & Loss Control Department in order to provide customers with loss prevention advisory services, helping them achieve the goals of zero-disaster, zero-loss, and low risk. To rationalize and institutionalize the loss prevention system, Fubon set out to obtain ISO 9002 certification for quality control, a drive which culminated in September, 1998, when Fubon Insurance earned ISO 9002 certification from France's BVQI. More than ever before, Fubon's loss prevention services meet the real-life needs of our customers.

In 1999 we extended the ISO 9002 challenge to the claims system. This, we felt, would further strengthen the management structure and integrate internal resources, while bringing quality control systems to this important area. After seven months of unremitting effort, certification was finally granted by SGS Taiwan Ltd. This marks the first for a domestic insurance company to achieve international ISO certification for a company-wide claims operational system – a new success for Fubon Insurance.

GROUNDED FIRMLY IN OUR CORE COMPETENCY

INNOVATION REPLACES PRICE-CUTTING
QUALITY PRODUCTS R&D DRIVES UP REVENUE

Research and development is key to a company's survival, as well as to the progress of society. Insurance is of course no exception. In an age of internationalization and deregulation, the domestic insurance industry faces competition of unprecedented intensity. There is only one way to outpace the competition in the rapidly changing environment: constantly develop new products to create product differentiation, meeting the ever changing needs of our customers.



Winning "Asia Insurance Industry Awards 1999, General Insurance Company of the Year"

Outperforming 101 nominees in terms of customer services, financial performance, corporate governance, the ability to respond to market change, innovation, profitability, and adding "definite extra" to lift the industry as a whole to higher levels.

Fubon Insurance was winning "General Insurance Company of the Year 1999"

for the 3rd Asia Insurance Industry Awards.

Who is the most reliable partner for your risk management?

Fubon insurance, the winner of the Best Asian non-life insurer for 1999, will be your best choice.





In recent years, Fubon Insurance has been very active in new product development. New products introduced in 1999 included Motorcyclist's Accident Insurance (a very large segment in Taiwan); Personal Accident Insurance (attached to Fire/ Fire & Allied Perils Insurance); Subsidence, Landslip, and Avalanche Insurance (attached to Fire/Fire & Allied Perils Insurance); Bailee's Liability Insurance; Road Rescue Expenses Insurance, etc. Engineered with customers in mind, the new products received positive response in the market.

Today's rapid technological and economic advancement, as well as to increasingly complex changes in people's values and lifestyles, demand for insurance will certainly rise. In response, Fubon Insurance will continue to invest significant human and financial resources in new product development, and vigorously launch even more new products. We aim to bring comprehensive insurance protection to all segments of society.

MORE PRAISE FOR FUBON

THE FUBON FIRE LABORATORY - TOPS IN SE ASIA WINS INSURANCE FAITH-HOPE-LOVE AWARD

Following the establishment of the Safety & Loss Control Department in 1995, in June of 1997 Fubon Insurance invested NT\$40 million to establish Asia's finest fire laboratory. With comprehensive equipment and professional training, the Fubon Fire Laboratory educate customers with essential concepts of insurance and loss prevention; enabling them to minimize losses from fire damage.

Besides providing advisory and consulting services, the Fubon Fire Laboratory has designed a series of fire training classes, services which have won the praise and support of major local corporations. In January 1999, Risk Management & Insurance Magazine sponsored Taiwan's first insurance industry awards. In affirmation of Fubon's efforts in fire prevention education, the company was awarded a judges' special nomination award.

Overview of Business Performance

MEETING CHALLENGES AND SCALING NEW HEIGHTS

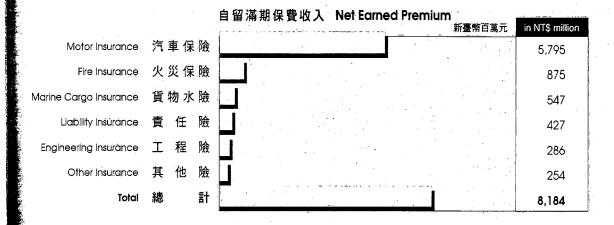
The year 1999 saw the official implementation of mandatory motorcycle liability insurance, which brought NT\$8.24 billion in new premiums to the insurance industry. This allowed the property & casualty insurance industry as a whole to record stellar performance in 1999, amid an otherwise lackluster economy. For the first time since 1994, the industry enjoyed double-digit growth as companies finally shook off several years of poor premiums income performance. Written premiums for the entire industry totalled NT\$85,156,560,000, an increase of NT\$9.3 billion, or 12.28%, over the year before.

Fubon Insurance sat stably atop the market, ranking first again in market share for the eighteenth consecutive year. Premiums income was NT\$16,412,850,000, for a market share of 19.27%. With the exception of marine hull insurance and aviation insurance, each of Fubon's insurance lines also led the industry in terms of premiums income.

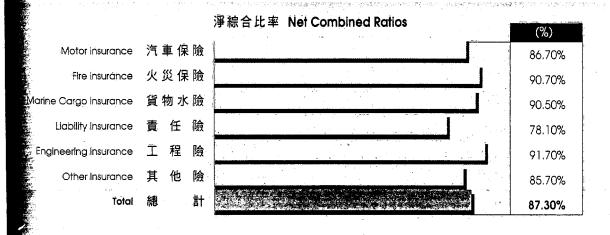
As industry leader in premiums income and market share, Fubon's market reputation and business performance dominate Taiwan's insurance industry. Nonetheless, the Fubon team is fully cognizant of increasingly intense competition, market deregulation and internationalization trends, and the diversification of consumer demand. In this changing – and

八十八年度各險經營狀況

RESULTS OF OPERATIONS IN 1999



| · | | 核保損益 | Underwriting Profit (Loss) | 新臺幣百萬元 | in NT\$ million |
|------------------------|-------|------|----------------------------|--------|-----------------|
| Motor insurance | 汽車保險 | | | | 644 |
| Fire insurance | 火災保險 | | | | -28 |
| Marine Cargo Insurance | 貨物水險 | | | | 53 |
| Liability Insurance | 責任險 | | | | 81 |
| Engineering insurance | 工程 險 | | | | 0 |
| Other Insurance | 其 他 險 | 1 | | = | 37 |
| Total | 總計 | | | | 787 |



毛保費收入

DIRECT WRITTEN PREMIUM INCOME

| 汽 | 車 保 險 Motor Insurance 新臺幣百萬元 | in NT\$ million |
|-------|-------------------------------------|------------------|
| '97 | | 9,217 |
| '98 | | 9,508 |
| '99 | | 10,406 |
| | | |
| 火 | 災 保 險 Fire Insurance 新臺幣百萬元 | in NT\$ million |
| 97 | | 3,095 |
| '98 | | 2,805 |
| '99 | | 2,772 |
| • | | |
| 貨 | 物 水 險 Marine Cargo Insurance 新臺幣百萬元 | iin NT\$ million |
| 97 | | 1,144 |
| 98 | | 1,235 |
| '99 | | 1,198 |
| - | | |
| 責 | 任 險 Liability Insurance 新臺幣百萬元 | in NT\$ million |
| 97 | 71 38 (12 H-1977) | 509 |
| '98 | | 246 |
| · '99 | | 300 |
| _ | | |
| I | 程 險 Engineering Insurance 新臺幣百萬元 | in NT\$ million |
| '97 | | 842 |
| '98 | | 983 |
| 99 | | 899 |
| - | | ····· |
| 其 | 他 險 Other Insurance 新臺幣百萬元 | in NT\$ million |
| '97 | With the last of | 352 |
| '98 | | 706 |
| ·99 | | 837 |
| | | |
| 總 | 計 Total 新臺幣百萬元 | is NTC william |
| '97 | 利塞市日南 70 | in NT\$ million |
| 98 | | 15,157 |
| '99 | | 15,482 |
| 77 | | 16,413 |

challenging – environment, Fubon's associates stand ready. We have streamlined operations, reduced overhead, boosted work efficiency, raised competitiveness, and set our sights on providing "the most professional, the most comprehensive" service available. Meanwhile, we have also established product conference mechanisms, planned product innovation launches, and aggressively launched new superior quality products. By differentiating our products from those of our competitors, we are winning through quality instead of resorting to price competition. Finally, by drawing on the Fubon Group's wide spect financial services, we are able to monitoring our growth.

MOTOR INSURANCE

Automobile sales slumped for the second year in a row in 1999, with only 423,000 vehicles sold. This represented a 10.7% decline from the previous year, the steepest decline in recent memory. Consumer sentiment towards insurance has also remained sluggish. These factors, plus the effects of no claim bonus, meant that voluntary insurance showed no signs of a revival, and continued to slide industry-wide.

Mandatory motorcycle insurance went into effect in January 1999, bringing several million motorcycles into the insurance market for the first time. This new business brought a large influx of premiums income, and changed the landscope of the motor insurance market. Mandatory insurance now comprises more than 40% of total motor insurance revenues.

Total motor insurance premiums for the entire industry grew 22.75% in 1999. Of this total, voluntary insurance fell by 0.07%, revenues from mandatory automobile insurance premiums rose 7.61%, and mandatory motorcycle insurance in its first year brought in NT\$8.74 billion. Fubon Insurance's written premiums income from motor insurance was NT\$10,647,730,000, an increase of 10.31% over 1998. Of this total, voluntary insurance premiums dropped by 8.47%, mandatory automobile insurance premiums income rose by 1.5%, and mandatory insurance premiums for motorcycles brought in NT\$1.57 billion. Fubon's motor insurance market share was 20.4%.

Given the stagnation in the voluntary motor insurance market together with stiff price competition, Fubon's maintenance of 22.07% market share was quite impressive. Moreover, the restructuring of voluntary motor insurance has made Fubon's foresightful sales policies and strict quality

management bear fruit. The full-term loss ratio for the same period year-to-year has improved four years in a row, falling to 54.1% – a record low.

The Motor Insurance Underwriting Department has strongly emphasized new product development and continue to promote new products. Premiums income from new motor insurance products increased NT\$86 million over 1998 to reach a total of NT\$580 million in 19 – a significant contribution to total revenue. Other new products awaiting government approv such as Consolatory Expense Endorsement Insurance and Road Rescue Expenses Insurance a also expected to generate substantial revenues for the company.

In the area of marketing and premium payments, Fubon Insurance has allied with companies other industries to promote its products. In addition, the "518 Insure Me" program allows consumers to take advantage of 5 simple payment methods when taking out a policy: postal money transfer, ATM transfer, telephone payment, fax payment, and internet payment. The 5 program will soon be expanded to integrate other lines of insurance besides motor. With 518, paying insurance premiums is getting more convenient.

In December 1999, Fubon Insurance's claims settlement system earned ISO 9002 certification. We also continued the Motor Insurance Best-practice Claims Control program. Policyholders have access to a 24-hour toll-free hotline and, in major metropolitan areas, 7:00 am – 11:00 pn on-site assistance to process claims in the event of an accident. Furthermore, we have take the Call Out system a step further, in which the claims adjustor takes the initiative to call the policyholder in order to better understand how the claim has been processed, and whether the customer is satisfied. The results are then used later to review customer service practices. The Call Out system truly lets our policyholders know that Fubon is working to care for them around the clock.

FIRE INSURANCE

Written premiums from fire insurance totalled NT\$2,772,300,000 in 1999, a fall of 1.17% from 1998's figure of NT\$2,805,020,000. Since the fire insurance market as a whole experienced negative growth in revenues of only 0.62%, Fubon's market share declined from 18.83% in 199 to 18.73% in 1999.

The reason for the drop in fire insurance income can be attributed to the trend toward rate deregulation, as well as the company's continued effort to strengthen underwriting criteria to

國內第一家開辦自動櫃員機、電話銀行、 PC銀行繳交保費的產物保險公司

電子自動化的時代來臨,富邦保險的收費 方式也不斷改進。八十八年四月一日起與 富邦銀行合作,針對承保車險、機車強制 險、火險的客戶,推出自動櫃員機轉帳繳 交保費,客戶得以二十四小時跨行轉帳繳 交保費,打破時間的限制;七月一日起, 更進一步針對富邦銀行的客戶,開辦電話 銀行及PC銀行轉繳保費,讓客戶不出門



也可繳交保費,進一步打破空間上限制。 之後,再整合 ATM 、網路、銀行、郵 局、便利超商、電話語音轉帳等行銷通 路,架構 518 網路,讓消費者可經由 24 小時的服務體系,簡便完成強制保險的續 保手續,使富邦保險的收費方式進入自動 化時代,為客戶提供更貼心的服務。

FUBON INSURANCE BECOMES TAIWAN'S FIRST TO ACCEPT PREMIUM PAYMENTS VIA ATM, TELEPHONE BANKING, OR PC BANKING

As the automated electronic age moves forward, Fubon Insurance is constantly improving its premium collection methods. On April 1, 1999, Fubon Insurance, in cooperation with Fubon Bank, launched ATM account transfer payments for motor insurance, mandatory motorcycle insurance, and fire insurance policyholders. Customers now enjoy the convenience of 24-hour interbank transfer payment of policy premiums. With time no longer a restriction, Fubon Insurance took the next step to also eliminate the restriction of location. On July 1, Fubon Bank depositors began paying insurance premiums by fund transfer using PC banking or telephone banking. For Fubon policyholders, premiums payment has truly entered the age of automation -- another example of Fubon's attentive service towards its customers.

OVERVIEW OF BUSINESS PERFORMANCE

filter out high-risk traditional industries. As a result, the 1999 full-term premium loss ratio for fire insurance was 41.69% (excluding the effects of the 9-21 earthquake). This was far lower than the generally expected 55% loss ratio. Clearly, Fubon's efforts to increase the quality of the portfolio, raise underwriting efficiency, and create underwriting profits have been effective.

Fire insurance business activities in the year 2000 can be divided into two categories. For the personal line, Fubon will continue its work in new product development while strengthening cooperation with Fubon Direct Marketing and other Fubon affiliates; utilize Group resources and realize the goal of integrated marketing. For commercial line, Fubon Insurance will intensify portfolio development in high-tech industries and in Taiwan's industrial parks. Fubon will also engage in joint business development with affiliated enterprises (such as Fubon Bank and Fubon Investment Trust). Fubon Insurance is addressing practical customer needs with professional insurance planning and loss prevention services. Combining a robust financial strength, a high international credit rating, and ISO certification for claims services, Fubon Insurance is confident of taking customer satisfaction to a new height.

MARINE CARGO INSURANCE

Marine cargo insurance rates have been reduced year after year, and premiums income has fallen accordingly. Fubon Insurance wrote NT\$813,280,000 worth of marine cargo insurance in 1999, a drop of 5.35% from 1998's figure of NT\$859,250,000. Nonetheless, Fubon still outperformed the industry as a whole, which experienced a 12.62% decline in marine cargo premiums income. Fubon's market share for this line of insurance rose by 1.57% to 20.48% – number one in the industry. The loss ratio held steady at 57.78%.

In the area of claims, Fubon Insurance was honored to earn ISO 9002 certification for its marine cargo insurance claims processing system in 1999. In days to come, Fubon will continue to raise customer satisfaction, achieve new standards of service, and to provide policyholders quality, friendly, attentive service.

In December 1999, the Ministry of Finance approved a new product: Bailee's Liability Insurance. This is an insurance product with a diverse market, providing proprietors with a means of spreading out risk, as well offering consumers a new channel to seek compensation. The debut of this type of insurance in Taiwan holds great promise in the market.

The year 2000 will see price competition grow white-hot. Fubon Insurance will build on its

existing sales channels by establishing special development teams devoted to opening new sources of clientele. We will also continue to vigorously develop new products, provide loss prevention services, and improve internal operational flows to reduce overhead. These activities constitute the company's main business efforts for marine cargo insurance in the year 2000.

MARINE HULL INSURANCE

Fubon's marine hull insurance performance was less than ideal in 1999, suffering from a world-wide drop in market rates combined with intense domestic competition. Direct written premiums income was NT\$71,980,000. This 10% drop from 1998 nonetheless outperformed the industry as a whole, which suffered a 15% fall in marine hull insurance income. In 2000 we will attempt to raise our market share by going after fleet business, drawing on the Fubon spirit of professional service.

FISHING VESSEL INSURANCE

Fubon Insurance wrote fishing vessel insurance policies worth NT\$227,510,000 in 1999, about the same as in 1998. Our market share was a dominant 31.67%. Given the variables inherent in fierce competition, both from domestic and international companies, Fubon's maintenance of its market share was quite impressive. In 2000, Fubon aspires to writing policies for newly manufactured fishing vessels, and maintaining its number one market share and a robust profit margin.

AVIATION INSURANCE

Written premiums income for aviation insurance policies stood at NT\$84,880,000 in 1999, an increase of 19.5% over 1998. This growth rate outstripped the industry-wide rate of 14%. The loss ratio was astronomical, however, at 803%, a result of the Hualian crash of UNI Airlines (a domestic airline).

In 2000, airline industry mergers will shrink the customer base. Fubon Insurance thus hopes to increase participation in large airline fleet business so as to maintain continued growth.

ENGINEERING INSURANCE

Engineering insurance premiums generated NT\$899,100,000 in income in 1999, a drop of NT\$83,600,000 from 1998. This negative 8.51% growth rate was lower than the market

average of -5.77% by 2.74 percentage points; accordingly, Fubon's market share slipped 0.74 percentage points from 1998 to stand at 24.75%.

The engineering insurance loss ratio in 1999 was 159%, primarily because of the 9-21 earthquake. Fortunately, losses were limited to the deductible portion, as reinsurance companies covered the remainder.

The year 2000 is expected to see a steady increase in private investment. Moreover, contracts for post-earthquake reconstruction will go out in the second half of the year, and will comprise a major source of engineering insurance underwriting. Fubon Insurance is also participating in the Taiwan High-speed Rail investment, a BOT project starting in March 2000. This will be another important source of engineering insurance business. Fubon plans to continue strengthening employee professionalism in this area to boost its technical capabilities, raise service quality, and maximize operating efficiency – our business goals for the year 2000.

OTHER CASUALTY INSURANCE (INCLUDING LIABILITY INSURANCE)

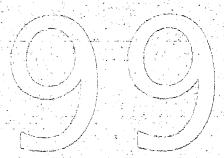
Premiums income from all other types of casualty insurance (including liability insurance) was NT\$1,137,500,000 in 1999, an increase of NT\$186,300,000 over 1998. The main growth driver was liability insurance, which generated NT\$111,000,000 in added premiums, for growth of 19.59% – 5.14 percentage points higher than the market average of 14.45%. Market share also edged upward by 0.66 percentage points, reaching a level of 15.57%.

The loss ratio for "other casualty insurance" in 1999 was 83.93%. The sharp rise in the loss ratio was due mainly to the effects of the financial crisis on Bankers' Blanket Bond. Appropriate reinsurance coverage enabled risk to be spread out, dramatically reducing Fubon's own exposure and softening the impact of this crisis. In other areas, loss ratios were quite low.

In 2000, liability insurance will continue to hold the greatest market potential of any insurance line. One key effort will be to vigorously promote Comprehensive Personal Traveling Insurance to provide complete insurance protection for travelers. New product innovation, research, and development will continue apace to meet consumer demands and expand the liability insurance market. In addition to these business emphases, Fubon Insurance will also accelerate R&D of other new property insurance and credit insurance products for launch in the year 2000, thus expanding our market share.







一层

由現代保險雜誌主辦、 國內二十四所大專保險 系所協辦的「第一屆保 險信望愛獎」,於元月 十日舉行頒獎典禮。富 邦產物保險斥資四千萬 元成立「消防試驗 室」,積極宣導消防教 育,此番特獲評審團青 睞,榮獲『評審特別推

富邦文教基金會與國立 政治大學、國立中山大 學合作,共同在兩校商 學系所開設「富邦金融 講座」課程。三月二日 假富邦金融中心舉行簽 約儀式。

總裁應邀前往國立中山 大學演講,講題為「金 融機構的經營管理」。



財政部核准銷售新商品 「富邦火災保險附加傷 害保險」。

為加強車險服務品質, 彌補現行「7-11現場處 理(7:00am-11:00pm)」 不足之處,特與道路救 援業者~俥之友~簽訂 現場服務合約,提供客 戶「二十四小時現場事 故處理服務」。

瓜周

財政部於核准開辦「火 災保險附加地層下陷、 滑動或山崩保險」

親剔

車險理賠引進法國 AXA-UAP集團所屬提 上援助公司(GES) ASSISTANCE)加力 汽車險道路救援;合計 道路救援服務公司增加 為四家。

九月二十一日凌晨-四十七分十二點六秒, 台灣地區發生芮氏規模 七點三級的強烈地震, 震央在日月潭南方六點 五公里;死亡人數超過 二千三百三十三人,受 傷逾一萬人,總體經濟 損失逾三千億新台幣。

এন্ডাল্ডান্ট > Risk Management & Insurance Magazine sponsors the First Annual Insurance Faith-Hope-Love Award, presented on January 10 and cosponsored by the Insurance departments of 24 universities and colleges. Fubon Insurance's NT\$40 million investment in the establishment of the Fire Laboratory, and active promotion of fire education, eams a special judges' nomination award.

இர்குற் > hè Fubon Cultural & Education Foundation cooperates with National Cheng Chih University and National Chung Shan University to launch a course in these schools' business departments titled "The Fubon Financial Seminar." The signing

ceremony for this program is

held on March 2 at the

Fubon Fl m mnancial

Center.

Mr. Tsai Wan-Tsai, Fubon group chairman accepts an Invitation to lecture at Chung Shan University on the topic 'The Management of Financial Institutions".

迎到 > The Ministry of Finance approves sales of a new product, Personal accident insurance (attached to Fire/FAP Insurance)

To enhance motor Insurance service and fill in the gaps in the existing 7 a. m. - 11 p.m. On-site Processing program for accidents, Fubon signs an on-site service agreementwith a road emergency & towlna company so that policyholders have access. to 24-hour service at the site of an accident.

ATTUE > The Ministry of Finance approves the launch of Subsidence, Landslip, and Avalanche Insurance (attached to Fire). FAP Insurance)

ട്ടില്ലാണ്ലാ > The Motor Insurance claims department signs on GESA Assistance, a subsidiary of France's AXA-UAP, as the fourth road service company providing on-site road rescue to Fubon policyholders.

At 1:47:12.6 a.m. on September 21, Talwan experiences a powerful earthquake measuring 7.3 on the Richter Scale. The epicenter of the quake is 6.5 kilometers south of Sun-Moon Lake. Known as the 9-21 Quake, the temblor kills 2,333 people and injures more than 10,000, causing economic losses exceeding NT\$300 billion.

九二一集集大地震後, 全公司同仁響應慈善基 金會之號召,一日捐總 額逾三百萬元。

承保兩儀文化於故宮博物院展出之「漢代文物大展」藝術品保險,並由集團贊助五百萬元。

於亞洲保險論壇所舉辦的「第三屆亞洲保險業 選拔競賽」中,獲選為 『1999亞洲最佳產險公司』,總經理石燦明親 赴新加坡領獎。

4-5

中二原

全公司理賠作業系統為 推動作業流程合理化, 於八十八年三月申請ISO 9002 國際品質認證, 式與輔導公司簽約。十二 月二十一日順利獲得台灣 檢驗科技公司(SGS) 認證,成為國內產險業首 家以「全公司理賠作業系 統」獲得認證的公司。

財政部正式核准通過新商品『受託物管理人責任保險』。該產品多元化的承保對象,不僅分擔業主經營風險,也提供消費者另一求償管道,為國內首創相關類型保險,極具市場潛力。

車險新商品「富邦汽車 保險附加道路救援費用 保險」報部核准通過。

為因應環境變遷與資訊 工具之更新,正式啟動 「數位神經作業系統」 計劃,透過CPR及IT重 建等六個計劃,簡化作 業流程,提高工作作效 率,以降低作業成本, 提升整體競爭力。預計 兩年內完成。

According to statistics collected by the 9-21 quake hotline, an initiative to serve quake victims, there were 250 fire insurance incidents with a total value of NT\$4 billion, and 123 other cases involving engineering of insurance. Total damage claims are estimated at over NT\$1.2 billion. Fubon's maximum claims settlement reserve is NT\$ 80 million (combining fire and engineering insurance); the excess amount is covered by reinsurance for large-scale disasters.

In the wake of the earthquake, everyone at Fubon responded to calls from Fubon Charity Fundation with advantions exceeding NTS 3

The Fubon Group:sponsors the National Palace Museum's Han Dynasty Cultural Exhibit to the tune of NT\$5 million, with art insurance provided by Fubon Insurance.

OSIGIS > Asia Insurance
Review names Fubon
Insurance as General
Insurance Company of the
Year in its Asia Insurance
Industry Awards 1999, Fubon
President Shih Tsan-ming
accepts the award in
Singapore.

November > In cooperation with new government policies to make insurance data more transparent to consumers and to deregulate rates. Fubon applies for credit ratings from Standard & Poor's and Taiwan Ratings Corp. Fubon's intention to bolster its international reputation was soon affirmed with a twAAA rating from TRC and a AA- rating from S & P's.

Dagambar > Process rationalization is Instigated for Fubon's claims settlement system. In March 1999, Fubon had applied for ISO 9002 certification and officially engaged a company to assist this effort. On December 21, certification was awarded by Talwan's SGS Corp. making Fubon Talwan's first property & casualty insurance company to achieve ISO 9002 certification for claims processing.

The Ministry of Finance officially approves a new product: Ballee's Liability insurance. This is an insurance product with a diverse market, providing proprietors with a means of spreading out risk, as well offering consumers a new channel to seek compensation. The debut of this type of insurance in Talwan holds great promise in the market.

A new Fubon product, Road Rescue Expenses Insurance, is approved by the Ministry of Finance.

To respond to changes in Information tools and the operating environment, Fubon Insurance officially launches the "Digital Nervous System.* Through six programs including CPR and IT reengineering. Fubon will streamline operational flows, raise work efficiency, reduce operating overhead, and raise overall competitiveness. Estimated time to completion is two vears.

- · 於辭 **自 (1)表** 30
- **損益表** 32
- 監查人審查報告 33
- 會計師查核報告 33
 - Balance Sheets 34
- Income Statements 36
- Supervisor's Report 37
- Independent Auditors' Report 37
 - Summary of Reformatted 38

Financial Information



| | 中華民國八十八年 | 中華民國八十七年 |
|-----------------------------------|--------------|------------|
| | 十二月三十一日 | 十二月三十一日 |
| 資産 | 新台幣千元 | 新台幣千元 |
| 流動資產 | | |
| 現金及約當現金 | 13,158,875 | 14,826,538 |
| 短期投資 (減備抵跌價損失\$408,623及\$770,344) | 15,701,014 | 12,961,941 |
| 應收票據 (減備抵呆帳\$43,235及\$11,054) | 1,183,728 | 1,077,304 |
| 應收收益 | 265,856 | 394,346 |
| 應收保費 (減備抵呆帳 \$29,576及\$20,591) | 1,662,104 | 2,251,102 |
| 應攤回再保賠款 | 10,625,926 | 4,573,304 |
| 保險同業往來 | 515,241 | 741,641 |
| 其他應收款(減備抵呆帳 \$0及\$0) | 507,280 | 638,634 |
| 預付款項 | 92,502 | 222,437 |
| 小計 | 43,712,526 | 37,687,247 |
| 買匯貼現及放款 | | |
| 短期擔保放款(減備抵呆帳 \$14,695及\$10,340) | 149,305 | 73,660 |
| 小計 | 149,305 | 73,660 |
| 基金、長期投資及應收款 | | |
| 長期投資 | 12,685,387 | 11,351,109 |
| 小計 | 12,685,387 | 11,351,109 |
| 固定資產 | | |
| 土地 | 600,550 | 629,923 |
| 房屋及建築 | 1,074,791 | 1,092,439 |
| 交通及運輸設備 | 77,502 | 74,555 |
| 什項設備 | 357,992 | 348,847 |
| 成本 | 2,110,835 | 2,145,764 |
| 減:累積折舊 | (505,991) | (427,253) |
| 未完工程及訂購機件 | 84,500 | 13,459 |
| 固定資產淨額 | 1,689,344 | 1,731,970 |
| 其他資產 | | • |
| 非營業資產淨額 | 35,902 | 19,512 |
| 存出保證金 | 2,792,714 | 2,563,353 |
| 催收款項 (減備抵呆帳 \$154,760及\$6,246) | 0 | 87,120 |
| 存出再保責任準備金 | 8,974 | 13,562 |
| 遞延費用 | 45,174 | 7,902 |
| 小計 | 2,882,764 | 2,691,449 |
| 資產總計 | \$61,119,326 | 53,535,435 |

| | 中華民國八十八年 | 中華民國八十七年 |
|-------------|--------------|--------------|
| | 十二月三十一日 | 十二月三十一日 |
| 負債及股東權益 | 新台幣千元 | 新台幣千元 |
| 流動負債 | | |
| 附買回票券負債 | 263,188 | 705,604 |
| 應付費用 | 474,631 | 386,038 |
| 應付稅款 | 179,240 | 119,825 |
| 應付佣金 | 256,392 | 279,708 |
| 應付保險賠款 | 8,866,872 | 2,952,873 |
| 應付再保賠款 | 214,076 | 60,257 |
| 保險同業往來 | 471,676 | 538,110 |
| 其他應付款 | 1,339,309 | 1,911,702 |
| 預收款項 | 319,943 | 1,338,343 |
| 小計 | 12,385,327 | 8,292,460 |
| 長期負債 | | |
| 土地增值稅準備 | 9,264 | 9,263 |
| 小計 | 9,264 | 9,263 |
| 其他負債 | | |
| 營業及負債準備 | 15,684,515 | 14,029,757 |
| 存入保證金 | 51,435 | 51,687 |
| 存入再保實任準備金 | 1,019,408 | 1,277,557 |
| 小計 | 16,755,358 | 15,359,001 |
| 負債合計 | 29,149,949 | 23,660,724 |
| 股東權益 | | |
| 普通股股本 | 17,239,374 | 15,672,158 |
| 資本公積 | | |
| 股本溢價 | 10,183,539 | 11,594,033 |
| 收入公積 | 79,954 | 79,933 |
| 土地重估增值準備 | 1,104 | 1,104 |
| 保留盈餘 | | |
| 法定盈餘公積 | 1,188,643 | 1,054,478 |
| 未指撥保留盈餘 | 4,291,086 | 2,763,990 |
| 權益調整 | | |
| 未實現長期股權投資損失 | (1,013,902) | (1,290,784) |
| 累積換算調整數 | (421) | (201) |
| 股東權益合計 | 31,969,377 | 29,874,711 |
| 負債及股東權益總計 | \$61,119,326 | \$53,535,435 |

| 帰 | *** | 養 |
|-----|------------|---|
| 134 | / 👑 | |

| (領)(益)(義) | 西莱尼图 3.1.0.4 | |
|----------------|---------------------|--------------|
| | 中華民國八十八年 | 中華民國八十七年 |
| | 一月一日起至 | 一月一日起至 |
| | 十二月三十一日 | 十二月三十一日 |
| | 新台幣千元 | 新台幣千元 |
| 營業收入 | | |
| 利息收入 | 1,394,889 | 1,505,369 |
| 保費收入 | 17,595,236 | 16,740,674 |
| 再保佣金收入 | 2,448,076 | 2,553,517 |
| 攤回再保賠款與給付 | 12,363,521 | 6,555,908 |
| 收回保費準備 | 7,028,468 | 6,358,082 |
| 收回特別準備 | 384,423 | 233,562 |
| 收回未決賠款準備 | 99,078 | 94,313 |
| 手續費收入 | 4,852 | 9,168 |
| 長期股權投資利益 | 1,056,330 | 0 |
| 不動產投資利益 | 367,935 | 358,570 |
| 其他營業收入 | 1,480,793 | 1,541,098 |
| 營業收入合計 | 44,223,601 | 35,950,261 |
| 營業成本 | | |
| 利息費用 | (86,679) | (90,726) |
| 保險費用 | (8,445,019) | (9,065,370) |
| 佣金費用 | (1,614,972) | (1,677,168) |
| 保險賠款與給付 | (17,348,258) | (10,795,207) |
| 提存保費準備 | (7,994,304) | (7,093,219) |
| 提存特別準備 | (757,145) | (667,560) |
| 提存未決賠款準備 | (156,443) | (99,078) |
| 手續費用 | (132,660) | (67,202) |
| 長期股權投資損失 | 0 | (12,294) |
| 不動產投資損失 | 0 | (24,512) |
| 其他營業成本 | (1,476,548) | (816,604) |
| 營業成本合計 | (38,012,028) | (30,408,940) |
| 營業毛利(毛損) | 6,211,573 | 5,541,321 |
| 營業費用 | | |
| 業務費用 | (2,867,570) | (2,577,829) |
| 管理費用 | (570,360) | (483,338) |
| 營業利益(損失) | 2,773,643 | 2,480,154 |
| 營業外收入 | | |
| 財產交易利益 | 29 | 842 |
| 什項收入 | 437,056 | 52,149 |
| 營業外收入合計 | 437,085 | 52,991 |
| 營業外費用 | | |
| 兌換損失 | (69,607) | (7,238) |
| 財產交易損失 | (419) | (4,717) |
| 什項費用 | (34,090) | (788,912) |
| 營業外費用合計 | (104,116) | (800,867) |
| 繼續營業部門稅前淨利(淨損) | 3,106,612 | 1,732,278 |
| 所得稅(費用)利益 | (505,000) | (390,000) |
| 稅後純益(純損) | \$2,601,612 | \$1,342,278 |
| 每股盈餘(虧損)(元) | \$1.51 | \$0.79 |
| | | |

監察人審查報告

茲准董事會造送本公司八十八年度決算報告書表及盈餘分配議案,經本監察人委託會計師查核完竣,認為尚無不符,爰依照公司法第二一九條之規定報請鑒察。

此 上 本公司八十九年度股東常會

富邦產物保險股份有限公司

常務監察人:周東寶

東山

監察 人 : 王為忠



中華民國八十九年三月二十四日

會計節登核報告

富邦產物保險股份有限公司民國八十八年十二月三十一日及八十七年十二月三十一日之資 產負債表,暨民國八十八年一月一日至十二月三十一日及民國八十七年一月一日至十二月三十 一日之損益表、股東權益變動表及現金流量表,業經本會計師查核竣事。上開財務報表之編製 係管理階層之責任,本會計師之責任則為根據查核結果對上開財務報表示意見。

本會計師係依照一般公認審計準則暨會計師查核簽證財務報表規則規劃並執行查核工作,以合理確信財務報表有無重大不實表達。此項查核工作包括以抽查方式獲取財務報表所列金額及所揭露事項之查核證據、評估管理階層編製財務報表所採用之會計原則及所作之重大會計估計,暨評估財務報表整體之表達。本會計師相信此項查核工作可對所表示之意見提供合理之依據。

依本會計師之意見,第一段所述財務報表在所有重大方面係依照一般公認會計原則及財政部證券暨期貨管理委員會頒佈之證券發行人財務報告編製準則編製,足以允當表達富邦產物保險股份有限公司民國八十八年十二月三十一日及民國八十七年十二月三十一日之財務狀況,暨民國八十八年一月一日至十二月三十一日及民國八十七年一月一日至十二月三十一日之經營成果與現金流量。

此致

富邦產物保險股份有限公司 公鑒

立本台灣聯合會計師事務所

會計師:劉克宜

會計師:陶鴻文

證管會核准簽證文號:(80)台財證(一)

第51636號

中華民國八十九年二月十九日

Balance Sheets

| | Financial | Financial |
|--|--------------|--------------|
| | Year ended | Year ended |
| | December | December |
| | 1999 | 1998 |
| Assets | NT\$Thousand | NT\$Thousand |
| Current Assets | | |
| Cash and Cash Equivalents | 13,158,875 | 14,826,538 |
| Short-Term investments | 15,701,014 | 12,961,941 |
| Notes Receivables | 1,183,728 | 1,077,304 |
| Accrued Income | 265,856 | 394,346 |
| Premiums Receivables | 1,662,104 | 2,251,102 |
| Reinsurance Recovery Receivables | 10,625,926 | 4,573,304 |
| Due from other Insurers | 515,241 | 741,641 |
| Other Receivables | 507,280 | 638,634 |
| Prepayments | 92,502 | 222,437 |
| Sub-Total | 43,712,526 | 37,687,247 |
| Loans | | |
| Mortgage Loans | 149,305 | 73,660 |
| Sub-Total | 149,305 | 73,660 |
| Funds, Long-Term Investments, and Receivables | | |
| Long-Term Investments | 12,685,387 | 11,351,109 |
| Sub-Total | 12,685,387 | 11,351,109 |
| Fixed Assets | | |
| Land | 600,550 | 629,923 |
| Buildings | 1,074,791 | 1,092,439 |
| Transportation Equipment | 77,502 | 74,555 |
| Other Equipment | 357,992 | 348,847 |
| Cost | 2,110,835 | 2,145,764 |
| Less: Accumulated Depreciation | (505,991) | (427,253) |
| Construction In Progress and Equipment Ordered | 84,500 | 13,459 |
| Sub-Total | 1,689,344 | 1,731,970 |
| Other Assets | | |
| Prepayment for Pensions | 35,902 | 19,512 |
| Guarantee Deposits Paid | 2,792,714 | 2,563,353 |
| Overdue Receivables | 0 | 87,120 |
| Reinsurance Liability Reserve Contributed | 8,974 | 13,562 |
| Deferred Charges | 45,174 | 7,902 |
| Sub-Total | 2,882,764 | 2,691,449 |
| Total Assets | \$61,119,326 | 53,535,435 |

| | Financial | Financial |
|--|--------------|--------------|
| | Year ended | Year ended |
| | December | December |
| | 1999 | 1998 |
| Liabilities & Stockholders' Equity | NT\$Thousand | NT\$Thousand |
| Current Liabilities | ··· | |
| Notes Issued under Repurchase Agreements | 263,188 | 705,604 |
| Accrued Expenses | 474,631 | 386,038 |
| Accrued Tax | 179,240 | 119,825 |
| Commissions Payable | 256,392 | 279,708 |
| Indemnity Payments Payable | 8,866,872 | 2,952,873 |
| Reinsurance Indemnity Payable | 214,076 | 60,257 |
| Payables to other insurers | 471,676 | 538,110 |
| Other Payable | 1,339,309 | 1,911,702 |
| Advance Receipts | 319,943 | 1,338,343 |
| Sub-Total Sub-Total | 12,385,327 | 8,292,460 |
| Long-Term Liabilities | | |
| Reserve for Land Value Increment Tax | 9,264 | 9,263 |
| Sub-Total | 9,264 | 9,263 |
| Other Liabilities | | |
| Reserve for Operations | 15,684,515 | 14,029,757 |
| Guarantee Deposits | 51,435 | 51,687 |
| Reinsurance Liability Reserve Received | 1,019,408 | 1,277,557 |
| Sub-Total Sub-Total | 16,755,358 | 15,359,001 |
| Total Liabilities | 29,149,949 | 23,660,724 |
| Stockholders' Equity | | |
| Common Stock | 17,239,374 | 15,672,158 |
| Capital Surplus | | |
| Additional Paid-in Capital | 10,183,539 | .11,594,033 |
| Gains on Disposal of Fixed Assets | 79,954 | 79,933 |
| Assets Revaluation Surplue | 1,104 | 1,104 |
| Retained Earnings | | |
| Legal Reserve | 1,188,643 | 1,054,478 |
| Unassigned Retained Earnings | 4,291,086 | 2,763,990 |
| Equity adjustment | | |
| Unrealized long-term equity investments loss | (1,013,902) | (1,290,784) |
| Accumulated Translation adjustments | (421) | (201) |
| Sub-Total | 31,969,377 | 29,874,711 |
| Total Liabilities and Stockholders' Equity | \$61,119,326 | \$53,535,435 |

| Income Statements | Financial | Financial |
|---|--------------|--------------|
| nocome statements | Year ended | Year ended |
| | December | December |
| | 1999 | 1998 |
| | NT\$Thousand | NT\$Thousand |
| Operating Revenues | | |
| Interest Income | 1,394,889 | 1,505,369 |
| Gross Premiums | 17,595,236 | 16,740,674 |
| Reinsurance Commission Income | 2,448,076 | 2,553,517 |
| Reinsurance Recovery and Subrogation | 12,363,521 | 6,555,908 |
| Unearned Premiums Reserve Release | 7,028,468 | 6,358,082 |
| Special Reserve Release | 384,423 | 233,562 |
| IBNR Reserve Release | 99,078 | 94,313 |
| Fee Income | 4,852 | 9,168 |
| Gain on Long-Term Equity Investments | 1,056,330 | 0 |
| Gain on Real-Estate Investments | 367,935 | 358,570 |
| Other Operating Income | 1,480,793 | 1,541,098 |
| Sub-Total | 44,223,601 | 35,950,261 |
| Operating Costs | | |
| Interest Expenses | (86,679) | (90,726) |
| Reinsurance Premiums Ceded | (8,445,019) | (9,065,370) |
| Commissions Expenses | (1,614,972) | (1,677,168) |
| Loss Incurred | (17,348,258) | (10,795,207) |
| Provision for Unearned Premiums Reserve | (7,994,304) | (7,093,219) |
| Provision for Special Reserve | (757,145) | (667,560) |
| Provision for IBNR Reserve | (156,443) | (99,078) |
| Processing Fees | (132,660) | (67,202) |
| Loss on Long-Term Equity Investments | 0 | (12,294) |
| Loss on Real Estate Investments | 0 | (24,512) |
| Other Operating Costs | (1,476,548) | (816,604) |
| Sub-Total | (38,012,028) | (30,408,940) |
| Operating Gross Profit | 6,211,573 | 5,541,321 |
| Operating Expenses | | |
| Marketing Expenses | (2,867,570) | (2,577,829) |
| Administrative and General Expenses | (570,360) | (483,338) |
| Operating Income | 2,773,643 | 2,480,154 |
| Non-Operating Revenues | | |
| Gain on Asset Disposal | 29 | 842 |
| Other Income | 437,056 | 52,149 |
| Sub-Total | 437,085 | 52,991 |
| Non-Operating Expenses | | (T. 404) |
| Loss on Foreign Exchange | (69,607) | (7,238) |
| Loss on Asset Disposal | (419) | (4,717) |
| Other Expenses | (34,090) | (788,912) |
| Sub-Total | (104,116) | (800,867) |
| Income from Continuing | | 1 700 070 |
| Operations before Income Taxes | 3,106,612 | 1,732,278 |
| Income Taxes | (505,000) | (390,000) |
| Net Income after Taxes | \$2,601,612 | \$1,342,278 |
| Earnings Per Share | \$1.51 | \$0.79 |



The accounting firm commissioned by this Supervisor to audit the 1999 budget reports as compiled and submitted by the Board of Directors in accordance with Article 219 of the Company Law has found them to be satisfactory in all particulars.

To be submitted to the 2000 Shareholders' Meeting.

Fubon Insurance Co., Ltd.

Executive Supervisor: Chou Tong-Pao

Supervisor: Wang Wei-Chung





March 24, 2000

Independent Auditors' Report

We have audited the accompanying balance sheets of Fubon Insurance Co., Ltd. as of Dec. 31, 1999 and 1998, and the related statements of income, changes in stockholders' equity, and cash flows for the years ended Dec. 31, 1999 and 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with generally accepted auditing standards in Taiwan, Republic of China, which are substantially similar to generally accepted auditing standards in the United States of America and the regulations governing such audits. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fubon Insurance Co., Ltd. as of Dec. 31, 1999 and 1998, and the results of its operations and its cash flows for the years ended Dec. 31, 1999 and 1998, in conformity with ROC generally accepted accounting principles.

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BDO TAIWAN UNION & CO.

February 19, 2000

Summary of Reformatted Financial Information

The financial information set forth below is qualified by reference to, and should be read in conjunction with, the Financial Statements and related notes thereto.

| | For the | For the | For the | For the |
|--|-------------|-------------|-------------|-------------|
| | Year ended | Year ended | Year ended | Year ended |
| | and as of, | and as of, | and as of, | and as of, |
| | December 31 | December 31 | December 31 | December 31 |
| (in millions, except for per share data) | 1999 | 1999 | 1998 | 1997 |
| Income Statement Data | | | | |
| Net written premiums (1) | US\$ 291 | NT\$ 9,150 | NT\$ 7,675 | NT\$ 6,815 |
| Net earned premiums (2) | 261 | 8,184 | 6,940 | 6,469 |
| Net claims and claims adjustment expenses (3) | 161 | 5,042 | 4,244 | 3,824 |
| Underwriting and operating expenses (4) | 75 | 2,355 | 2,042 | 2,236 |
| Underwriting profit (loss) | 25 | 787 | 654 | 409 |
| Net investment income (5) | 59 | 1,843 | 1,873 | 1,181 |
| Realized gain on investments (6) | 25 | 794 | 482 | 2,633 |
| Net provision for unrealized loss on investments | (12) | (362) | 770 | 0 |
| Net provision for special reserves | 12 | 373 | 434 | 359 |
| Net other income (expenses)(7) | (10) | (306) | (72) | 58 |
| Income befor tax | 99 | 3,107 | 1,732 | 3,921 |
| Income tax expense | 16 | 505 | 390 | 333 |
| Net income | \$83 | \$2,602 | \$1,342 | \$3,588 |
| Earnings per share | \$0.05 | \$1.51 | \$0.87 | \$3.67 |
| Earnings per share(as adjusted)(8) | \$0.05 | \$1.51 | \$0.79 | \$2.36 |
| Share outstanding (weighted-average) | 1,724 | 1,724 | 1,542 | 978 |
| Share outstanding (adjusted weighted-average | 1,724 | 1,724 | 1,697 | 1,515 |
| Balance Sheet Data | | | | |
| Total investment funds | \$1,473 | \$46,256 | \$43,723 | \$37,072 |
| Total assets | 1,947 | 61,119 | 53,535 | 47,226 |
| Reserves for operations and liabilities | 500 | 15,685 | 14,027 | 12,593 |
| Total liabilities | 928 | 29,150 | 23,661 | 22,541 |
| Stockholders' equity | 1,018 | 31,969 | 29,875 | 24,685 |
| | | | | |

[•] All translations from New Taiwan dollars to United States dollars were made on the basis of the market exchange rate by the Central Bank of China on December 31, 1999 of NT\$31.395 = US\$1.00

| | Year ended | Year ended | Year ended |
|--------------------------------|-------------|-------------|-------------|
| | December 31 | December 31 | December 31 |
| | 1999 | 1998 | 1997 |
| Other Data | | | |
| Net claims ratio | 61.6% | 61.2% | 59.1% |
| Net expenses ratio | 25.7% | 26.6% | 32.8% |
| Net combined ratio | 87.3% | 87.8% | 91.9% |
| Direct claims ratio (9) | 101.7% | 66.3% | 69.2% |
| Direct expenses ratio | 28.3% | 29.1% | 29.1% |
| Direct combined ratio | 130.0% | 95.4% | 98.3% |
| Industry direct claims ratio | N/A | 65.6% | 67.1% |
| Industry direct expenses ratio | N/A | 31.5% | 31.8% |
| industry direct combined ratio | N/A | 97.2% | 98.9% |

- (1) Gross premiums minus reinsurance premiums ceded.
- (2) Net written premiums minus net provision for unearned premiums reserve.
- (3) Loss incurred minus reinsurance recovery and subrogation plus net provision for IBNR reserve.
- (4) Commission expenses plus marketing expenses (other than bad debt expenses and depreciation), administrative and general expenses (other than land taxes and depreciation) and processing fees, minus fee income and reinsurance commission income.
- (5) Net interest income plus cash dividends and real-estate rental income, minus land taxes and depreciation in marketing expenses (for investment purposes).
- (6) Gain on long-term equity in investments plus net gain on sale of real-estate investments, net gain on disposal of marketable securities, gain on disposal of government bonds and other realized gain from investments.
- (7) Net gain on foreign exchange plus net gain on assets disposal, minus bad debt expenses, depreciation in administrative and general expenses and other loss.
- (8) The earnings per share (as adjusted) data contained in the above table have been calculated by dividing the net income for the relevant period by the weighted-average number of Shares outstanding during the relevant period. The number of outstanding Share is retroactively adjusted for the increases in issued capital stock effected during the relevant period and through distribution of stock dividends from unappropriated earnings or capital surplus.
- (9) 1999 includes the impact of "Taiwan 921 earthquake" claims of about NT\$ 5.6 billion. The net of reinsurance claims for this earthquake is about NT\$ 80 million.

住宅、店舗還本保險

火災保險

火災附加險

商店綜合保險

汽車保險

機車醫藥費用特約保險

機車駕駛人傷害保險

海上運輸保險

商業動產流動綜合保險

陸上運輸保險

運送人意外責任保險

受託物管理人責任保險

航空運輸保險

船體險

漁船險

航空險

機械保險

電子設備保險

營繕承包人意外責任保險

安裝工程綜合保險

鍋爐保險

營造綜合保險

營建機具綜合保險

履約保證保險

公共意外責任保險

產品責任保險

僱主意外責任保險

員工誠實保證保險

醫師責任保險

高爾夫球員責任保險

電梯意外責任保險

玻璃保險

竊盜損失保險

現金保險

銀行綜合保險

旅行業綜合保險

信用卡旅遊不便保險

小額信用放款信用保險

金融業保管箱責任保險

金融業保管箱竊盜損失保險

醫院綜合責任保險

保全業責任保險

建築師工程師專業責任保險

保險代理人經紀人專業責任保險

保險公證人專業責任保險

大眾捷運系統旅客運送責任保險

國軍官兵意外責任保險

個人旅遊綜合保險

Long Term Savings Fire Insurance

Fire Insurance

Fire & Alfied Perils Insurance

Shop Comprehensive Insurance

Motor Insurance

Medical Payment Endorsement for Motorcycle

Motorcyclist's Accident Insurance

Marine Cargo Insurance

Commercial Floater Insurance

Inland Transportation Insurance

Carriers Liability Insurance

Bailee's Liability insurance

Air Cargo Insurance

Marine Hull Insurance

Fishing Vessel Insurance

Aviation Insurance

Machinery Breakdown Insurance

Electronic Equipment Insurance

Contractor's Liability Insurance

Erection All Risks Insurance

Boiler & Pressure Vessel Insurance

Contractors' All Risks Insurance

Contractors' Plant & Machinery Insurance

Performance Bond Insurance

Public Liability Insurance

Product Liability Insurance

Employers' Liability Insurance

Blanket Fidelity Bond Insurance

Malpractice Liability Insurance

Golfers' Liability Insurance

Elevator Liability Insurance

Glass Insurance

Burglary & Theft Insurance

Money Insurance

Banker's Blanket Bond

Travel Agentcy Comprehensive Insurance

Credit Card Traveler Inconvenience Insurance

Consumer's Loan Credit Insurance

Safe Deposit Box Liability Insurance

Safe Deposit Box Burglary Insurance

Hospital Comprehensive Liability Insurance

Security Guard Liability Insurance

Architects & Engineers Professional Indemnity

Insurance Broker Professional Indemnity

Adjuster Professional Indemnity

MRT Passenger Liability Insurance

Group Personal Accident for Soliders Liability Insurance

Comprehensive Personal Traveling Insurance